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ABSTRACT

In order to establish a clearer sense of what California community colleges are expected to accomplish, to insure adequate resources to accomplish those tasks, and to provide a sounder basis for the assessment of the return of public investment in community colleges, the Board of Governors and the Office of the Chancellor of the California Community Colleges developed a long-range finance plan. The plan incorporates a new process of establishing state objectives for the colleges, asking local districts to plan each year for new and revised programs within the annual state budget process. It envisions a continuation of state fiscal support, through statute, to meet the costs of inflation and enrollment changes. It will expand current state concerns with serving particular student populations to a more comprehensive concern with staff development, student support services, administrative improvement, development of high priority curricula, and affirmative action. The plan is presented in seven parts, which provide background to and a summary of the plan, along with a discussion of those principles already secured in legislation, and which present a series of principles and their rationales in the areas of philosophy, goals, and priorities; support techniques; sources of support; accountability; and resources. (Author/AYC)

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CALIFORNIA
COMMUNITY
COLLEGES

# LONG-TERM FINANCE PLAN

## RECOMMENDATIONS FOR THE 1980's

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BOARD OF
GOVERNORS

SEPTEMBER
1979

CALIFORNIA
COMMUNITY
COLLEGES

# LONG-TERM FINANCE PLAN

# RECOMMENDATIONS FOR THE 1980's

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BOARD OF
GOVERNORS

## PREFACE

During the past half century the community colleges have played an ever more important and distinctive role in California. The community colleges are wholly devoted to teaching and to a belief that a wide range of citizens can benefit from postsecondary education. Even in the context of a nation noted for its devotion to egalitarianism, the open access policy of the California Community Colleges has been a daring achievement.

Because of the community college's distinctive mission, the University of California and the California State University and Colleges have been able to emphasize upper division and graduate programs as well as research and to maintain a selective admissions policy. This division of labor is at the heart of California's famed Master Plan for Higher Education.

Within the educational realm specified by the Master Plan, the community colleges have expanded enormously and now serve students of every age group, including a large number of part-time students. In the past twenty years the community colleges have assumed major responsibility for vocational training and an impressive array of continuing education functions as well as the more familiar role of preparing students for baccalaureate study. The California Community Colleges now serve well over a million students with a total annual budget that now approaches $1.5 billion. We are the largest system of postsecondary education institutions in the world.

The decade of the 1970's has been one of increasing financial turmoil for this state's community colleges. The state has paid a larger and larger share of the cost of the colleges under a rapid-fire succession of finance formulas that have been designed with control of costs in mind.

The latest and most dramatic development is the passage of Proposition 13. The Jarvis-Gann Initiative helped trigger the first substantial enrollment decline in the history of our community colleges. But, due to the presence of a substantial state surplus, the colleges have largely weathered the initial dangers posed by the abrupt withdrawal of 60 percent of the property tax revenues that historically provided the fiscal base for college operations.

Change and uncertainty continue. Efforts to limit government spending, reduce taxes and change the financing of public education lie ahead. The state now pays close to 80 percent of the costs of community colleges. State reliance on revenue from the income and sales tax means that the colleges currently rely on volatile tax sources whose yield depends on the health

of the economy to a far greater degree than the property tax. In an economic recession, more people turn to the community college for education and training. Yet, at the same time, recession threatens the tax base that gives life to the colleges.

There is no choice but to reconsider the role, the cost and the management of the community colleges. This plan is addressed to that awesome challenge. The plan reaffirms state policy that the community colleges be comprehensive, open access postsecondary institutions. But, within that broad framework, new and controversial changes are proposed.

The plan advances a set of principles dealing with college planning, the means to distribute funds to college districts, the effective use of college resources, and the way colleges ought to account for their use of public funds. Through reliance upon the concept of marginal costs, the plan suggests a closer fidelity between levels of state support and the costs of offering community college programs. This concept is well suited to an era when some of our colleges will continue to grow in enrollment and others will contract. In an effort to establish a clearer sense of priorities, limited locally-determined fees are suggested for the support of certain community service activities. Contracts with, and support by, business and labor are proposed as a means to help finance a portion of the vocational training function of the colleges.

Proposition 13 not only limits the taxing capacity of government, it also centralizes, at the state level, decisionmaking authority over the use of the remaining tax sources. This is a matter of profound concern in an educational system that has long prized local initiative and local governance. The responsibilities of state-level leadership for the community colleges are now expanding. Viewed from the perspective of the state Board of Governors, the essential task of the next decade is to exercise leadership without becoming a rule bound, turf protecting bureaucracy.

Our response to this task is contained within a new process of establishing state objectives for the colleges, asking local districts to plan each year with both state and local objectives in mind, and then identifying the need for new and revised programs within the annual state budget process. Our proposal envisions a continuation of fiscal support, through statute, to meet the costs of inflation and enrollment changes. Hopefully, this planning and evaluation process will expand current state concerns with serving particular student populations (including the disadvantaged and handicapped) to a more comprehensive concern with staff development, student support services, administrative improvement, development of high priority curricula and affirmative action.

Much has been accomplished in the process of developing the plan. Much remains to be done. Two concerns are especially urgent. First, heavier state responsibility for financial support must necessarily carry with it an increased concern for assuring equity of opportunity for students in the various districts and colleges. Thus far, this concern has been addressed within the simplistic framework of equalizing expenditures per student. But equal access to educational opportunity must also address the varying costs associated with different programs (including differing costs of instructional staff in each district) and a host of other factors. We need a new conceptual framework for defining equity among districts and colleges. Second, our general principles supporting a state-local partnership for planning must now be implemented. That process will require better information, an increased capacity for critical evaluation at both state and local levels, and most important, a firm basis of trust and respect among state, districts, and colleges.

This plan is not motivated by a desire to either centralize or decentralize power. Rather, our objective is to establish a clearer sense of what our community colleges are expected to accomplish, to insure adequate resources to accomplish those tasks and to provide a sounder basis for the public and its elected officials to assess the return of their investment in the colleges. Where appropriate, we propose a reduction in state-level intervention to accomplish these objectives. Specifically, we advocate the elimination of detailed state course approval and state review of certain capital outlay decisions.

This plan was developed after painstaking effort and broad consultation within the community colleges. The Long-Term Finance Plan results from a year of concentrated review of staff studies and policy discussion by the Board of Governors. Staff studies were directed by Chuck McIntyre of the Chancellor's Office under the supervision of former Chancellor William Craig. Jerry Hayward directed the office's effort to incorporate Plan provisions into legislation. The Chancellor and his staff were assisted by numerous individuals from the colleges and various state-level executive and legislative staff. Particular thanks are due to Leonard Shymoniak, Tom Tanner, Bill Hamre, Rocky Young, and Elton Ward along with Bob Swenson, Frances Compton, Tom Stevens, Yates Greer, Tom Van Groningen and others on the Chancellor's Finance Task Force who spent countless hours developing and refining policy recommendations. Thanks are due also to Evelyn Stacey for her skillful work in arranging the many meetings and producing the numerous documents essential to successful completion of the project. The many individuals who contributed to the study either as staff, under contract, or through service on advisory committees are listed in the appendix.

The italicized portions of the plan reflect decisions of the Board of Governors. (The balance of the text consists of staff commentary.) Having chaired the multiple Board meetings where these policies were approved, I can testify to the vigor and intensity of the debate. Not every vote was unanimous and individual Board members dissent from one or more of the plan's features. But, more importantly, our hearings and debate revealed wide consensus about the future of California's Community Colleges and their financing.

We do not believe that every feature of the plan will be adopted. Rather, we advance this plan in the belief that our role is to ask the right questions; to insist upon the gathering and analysis of the best evidence; and to act, where the law permits, or to advocate a change in the law. Above all, we wish to summon the best efforts and best thinking that California's talented system of community colleges can offer.

The citizens of California are justifiably proud of their community colleges as the decade of the 1980's begins. With diligent effort, we fully expect that the public shall have greater reasons for pride in the colleges ten years hence.

Stephen S. Weiner

STEPHEN S. WEINER
PRESIDENT
BOARD OF GOVERNORS

# I

# BACKGROUND

## PLAN CONTENT

The Board of Governors' Long-Term Finance Plan for community colleges is made up of a series of principles in five major areas of concern:

philosophy, goals, and priorities
support techniques
sources of support
accountability
resources

Other problems were studied, including the overall level of support needed for community colleges during the next decade. However, public policies and economic conditions are changing so rapidly that the Board and staff have confined their efforts at estimating future revenue needs to short-term simulations.

Principles for long-term finance have several major objectives: (a) to better satisfy Board of Governors' goals; (b) provide for more stable, long-lasting, and cost-related funding techniques; (c) recognize the significant differences between colleges; and (d) observe desired priorities and incentives. In addition, the long-term Plan recognizes probable future conditions in California that have a direct or indirect bearing on community college finance policies.

The many different finance policies of the 1970's were accompanied by dramatic shifts in the number and kind of community college students. This made effective planning and provision of college educational services difficult, at best. The Long-Term Finance Plan is an effort to stabilize community college finance during the 1980's and, hopefully, avoid many of the difficulties encountered during the past decade.

The Board's Plan is summarized in Section II along with a discussion of those features already secured in legislation. Specific Plan principles and the rationale for each are described in Sections III through VII. Further detail on certain issues and a listing of those individuals who contributed to the project are contained in Appendix A.

## PLAN DEVELOPMENT

The Plan results from over one year of concentrated Chancellor's Office staff study and discussion by the Board of Governors. Numerous individuals from community colleges and other state, federal and private agencies assisted in the effort either as staff, under contract, or through service on advisory committees.

The project began with a series of study group discussions in the summer of 1978. The Board then held an extensive review of finance in September to focus the major issues. This was followed by a two-day seminar at which the Chancellor hosted a dozen community college finance experts from across the country to discuss California problems. An in-depth study of community college financing in other states was undertaken subsequently by staff. Staff also began study of the initial impact of Proposition 13 to aid the analysis and developed a series of specific questions on which policy papers were written.

Further general discussions were held by the Board in January and March 1979. Debate and action on staff proposals took place at four meetings of the Board in February, April, June, and July 1979.

Some elements of the Plan have been endorsed for the coming two years by the Legislature as part of Assembly Bill (AB) 8, the second round of state assistance to local governmental agencies impacted by Proposition 13. Other elements of the Board's Plan will be proposed in the spring of 1980 as the Legislature continues its 1979-81 general session.

## RECENT FUNDING

### *Pre-Proposition 13*

Six different approaches to funding community college operating budgets were employed during the past decade. At the same time, the capital outlay funding technique (Construction Act) has been stable, but the funding level has varied dramatically.

Prior to 1973, college revenues from local property taxes were based upon relatively fixed tax rates and accompanied by state aid generated according to a "foundation" program. This was followed by "revenue control" under Senate Bill (SB) 6 in which average revenue per student was specified and state and local revenue (and local tax rates) varied as needed to provide the specified support. This technique was accompanied by rapid growth in student enrollments and escalating state support. Consequently, the Legislature placed a 5 percent limit on the enrollment for which state support would be allowed during 1975-76. Enrollment continued to increase with the result that community colleges experienced their lowest real (price-deflated) funding level in a quarter-century.

In 1976-77, community college finance returned, under SB 1641, to a form of the tax rate control that existed prior to 1973, but state aid was provided at an average rate - rather than the higher foundation rate - and local revenue was tied (through fixed tax rates) to assessed property value, irrespective of the number of students enrolled.

*Post-Proposition 13*

Proposition 13 resulted in a decline of $418 million in local property tax revenues for community college operations. This would have reduced total community college budgets by more than one-third. Legislation (SB 154) for 1978-79 to distribute a portion of the state general fund surplus to local agencies, provided community colleges with operating support for 1978-79 at about 8 percent below the prior year and utilized block grant funding for districts. Capital outlay funding declined significantly, continuing the trend of recent years.

Passage of Proposition 13 eliminated the local tax that enabled districts to match state apportionments to fund facilities under the Community College Construction Act. In recent years, the Legislature appropriated only a portion of the state funding justified by the physical plant utilization standards that implemented the Construction Act, and the Department of Finance relied on project priorities that varied from those used by the Board of Governors.

The Construction Act emphasizes new construction on college campuses. California demographics suggest there will be relatively less need for construction of new facilities during the 1980's, but more need for plant maintenance, remodeling or alterations, and lease or rental of temporary facilities off-campus. The Construction Act needs to be rewritten and reliable sources of capital outlay support secured.

Finance legislation (AB 8) for 1979-80 and 1980-81 returns community college funding to a formula driven by student workload and reflects many of the concepts contained in the Board's Plan. Under this legislation, about four-fifths of college operating funds are derived from state-level revenue sources. Funding for capital outlay is still uncertain.

## EXPECTED FUTURE CONDITIONS

These conditions are taken from a variety of sources. Further study is needed to analyze the likelihood or probability that alternative conditions will occur and result in a need to adjust possible finance policies.

*General*

California's population will continue to grow at a rate of about 1.5 percent annually. Greater proportions of the population will be middle-aged and will be made up of individuals of minority racial and ethnic background. There will be a continued trend to later and possibly smaller families. Numbers of single-parent families will grow and there will be continued progress toward male/female equality.

There will be continued, but moderate, growth in the state's economy and limited changes to general life-styles and social institutions as they now exist.

It is possible there will be expenditure growth limitations (in addition to the existing tax limits) for the California public sector beginning 1980. Also, there is likely to be increased competition between post-secondary education and other public services for public funding.

*Work*

Trends to shorter, more flexible work weeks will continue. Prior trends toward earlier retirement may be modified in light of recent legislation. It is possible that changes will take place in the traditional sequence of the education/work/retirement life cycle.

Women will continue to enter the work force at a rate greater than that of men. Mid-life career changes will increase in their frequency. Recent trends toward relatively more jobs that are service and communications-oriented and knowledge-intensive will continue. It is projected that there will be increased underemployment of baccalaureate degree winners.

*Postsecondary Education*

Efforts to provide general access to opportunities for postsecondary education will continue. Trends toward life-long learning will continue, especially in community colleges.

It is expected that there will be more flexible work-study arrangements. Also, there is likely to be increased use of non-traditional or alternative teaching technologies, including extra-classroom activity and off-campus outreach along with greater use of media such as computers and television to aid faculty in teaching students.

*Community College Enrollment*

The Plan is based on the expectation that there will be moderate growth in community college enrollments statewide during the 1980's, increasing as much as one percent annually, according to projections by the State Department of Finance. Provisions of current legislation assume annual growth rates of two and one percent for the next two years.

Enrollment prospects for community college districts are mixed. Individual district projections show approximately

| | |
|---|---|
| forty | increasing, |
| ten | relatively stable, and |
| twenty | decreasing |

during the next decade. Most growth is projected for colleges in the southern part of the state, particularly in Orange and San Diego Counties.

Community college enrollments are a function of the state's demographics and social and economic conditions as well as public policies such as those dealing with funding and admissions. Expected demographics and, to some extent, public policies are incorporated within Department of Finance enrollment projection models. The importance of funding policies was demonstrated during the Fall 1978 when budget cutbacks due to Proposition 13 were followed by programmatic cutbacks which, in turn, resulted in significant decreases in college enrollments. The projections of moderate enrollment increases during the next decade assume a "normal" level of funding which provides for at least year-to-year inflationary increases.

The composition of enrollments, which changed dramatically during the 1970's, will change further during the 1980's. There will be a continuing shift to older students as the general population itself becomes older and as more adults return to college for retraining and personal enrichment. Associated with this trend is a possible increase in the proportion of part-time students who now comprise seven of ten college enrollments.

The recent trend of increased enrollment of women is likely to continue. Declines in male enrollment may stablize as the number of veterans, attending on benefits, stabilizes and as recent high levels of economic activity in California decline.

The current proportion of racial and ethnic minorities (three of ten community college students) is likely to increase as the proportion of minorities among the general population increases. The extent of this increase in minority students also depends, however, on future policies for financial aid and related services since a large proportion of these individuals are from low income backgrounds.

The number and proportion of handicapped students enrolled is also expected to increase as facilities and services are made available to these individuals.

The subject areas in which students enroll will change, though specific trends are uncertain. It is likely, however, that trends to greater enrollment in occupational areas will continue, at least in the near term.

# II

# SUMMARY OF PLAN

This section summarizes the policy proposals contained in the Board's Plan. Following this summary, there is a discussion of legislative changes enacted during 1979. This discussion notes consistencies and inconsistencies between current legislative policy and the Board's Plan and suggests the need for further legislation in some areas. There is no attempt to review the first year impact on community colleges of Proposition 13 or to assess the potential impact of the Gann Initiative should it pass in November. Both issues are the topics of other reports to be released by the Chancellor's Office this fall.

## BOARD PROPOSALS

### *Philosophy, Goals and Priorities*

The Plan seeks cost-related funding techniques to assure future stability, engender effective delivery of community college educational services and provide incentives toward statewide educational goals. Districts would be afforded greater flexibility in using their resources, and accountability procedures would emphasize long-term planning and results, rather than short-term efforts.

It is strongly recommended that the comprehensive, community-oriented mission of the colleges be maintained. The policy of open admissions should be continued and a strong commitment to community services, as well as regular instruction, should be observed by districts. The Plan emphasizes local flexibility within broad, but explicit, statewide objectives. In this way, local priorities can be set effectively, particularly as districts are faced with increasingly scarce resources.

The Plan recommends a generic grouping of certain noncredit instruction (basically those courses dealing with avocations, personal enrichment, and recreation which were not eligible for state funding during during 1978-79) under community services and recommends explicit provision be made for public funding of these activities. This funding, suggested to be one-half of the support rate for regular instruction, could be supplemented by locally-determined user fees to provide adequate community services.

*Support Techniques*

Support techniques emphasize orderly year-to-year changes and seek to reduce inequities in support that may exist between districts. Formula funding, rather than line item budget review at the state level, is advocated because of the number and variety of community college operations throughout California. Proposed formulas would, however, be supplemented by an accountability procedure that emphasizes both statewide and local concerns.

Proposed techniques begin with definition of districts' "base budgets:" the state and local tax revenues each district has received. This base is adjusted each year for three factors:

- inflation, using an index reflective of state and local governmental costs;
- workload changes in instruction and other services; and
- program changes involving new services or new clientele.

Changes for inflation and workload would be formula-based in statute, while funding for program changes could occur through the state budget process or through statutory proposals.

Support for workload changes is at marginal or incremental, rather than average or total, rates. This procedure deals effectively with both growth and decline in enrollment and eliminates incentives for unwarranted changes in services. Several, rather than the traditional one, measures are suggested to describe workload changes. Classroom contact hours would be retained to measure traditional classroom instructional workload, but needless and time-consuming conversions to average daily attendance (ADA) are eliminated. Measures other than the contact hour are used for support services and administration, but the funds generated are not earmarked for specific use.

Capital outlay funding would be simplified by making greater use of formulas to determine needs, particularly for remodeling, alterations, and major maintenance. These formulas should incorporate such factors as future enrollments, programmatic trends, expected delivery techniques, and the size, kind, and age of existing facilities. The state role in reviewing individual projects should be reduced and greater emphasis placed on assisting districts in space management.

Traditional notions of equalization (of local property wealth differences) are discarded. Unwarranted operating budget disparities among districts can be addressed by adjusting the inflationary change for individual districts (up if the district is too low cost, and down if the district is too high cost). The state share is simply the difference between a district's base budget and available local property tax revenue. Expectations for local matching of capital outlay funding continue, but the calculation of differences in local matching capability changes to recognize a district's relative fiscal situation, including reserves, rather than its assessed value.

*Sources of Support*

The Plan advocates using a variety of revenue sources for community college support during the 1980's. Within this variety, the local property tax should constitute at least 30 percent (the 1978-79 level) of college operating budget funding, and districts would have the ability to pose new local taxes to their electorate, consistent with the provisions of Proposition 13. These policies should result in a relatively stable funding base and are consistent with the Board's thrust at maintaining responsible local control of community colleges.

Community college tuition for California residents is rejected because of its adverse effect on the Board's goal of equal opportunity for access. Tuition sufficient to replace revenues lost due to Proposition 13 property tax reductions would need to be much higher than either that at the University of California or at the State University and Colleges and would be prohibitive for those attending community colleges.

Limited, locally-determined fees are suggested for certain community services and college support activities, if adequate recognition is given to individuals' ability to pay.

Participation by business and labor, through private contributions that match public funding for occupational training, is recommended as a new revenue source. Continued efforts to obtain federal aid are supported, although the non-institutional and traditionally categorical character of this funding may prevent its being a reliable general source.

Reserves (a "stock") are considered for use in one-time support of capital outlay projects but not as a viable revenue source for continuing ("flow") requirements of operating budgets.

Funding for capital outlay has been insufficient during the past decade. The Plan recommends correcting this by using a combination of the above-mentioned reserves, an "appropriate" community college share of the Capital Outlay Fund for Public Higher Education (COFPHE), and the local revenue from prior Construction Act matching and lease/purchase taxes that is being phased out of base budgets after Proposition 13. A combination of these funds together with other available local revenues in appropriate proportions appear sufficient to support community college capital outlay needs during the 1980's.

*Accountability*

Proposed statutory formula funding techniques are to be accompanied by a new planning and accountability process. This process seeks to provide needed accountability for both state and local policymakers without resorting to extensive use of categorical funding or state-level review of district budgets.

The process would enable districts to determine and describe their preferences and the needs of their communities to the Board of Governors which, after appropriate review, can inform the Legislature and state executive and federal agencies about community college activities throughout California. Existing district plans would be consolidated into one plan with annual updates. Existing data sources would be used as much as possible and certain unnecessary legal requirements of districts would be eliminated.

Each district would describe all proposed program changes in its annual plan submittal. Those program changes requiring increased funding in districts' base budgets could be proposed for inclusion in the Governors' Budget and undergo the budget review process, whereas funding for inflation and workload changes are specified by formula in statute.

The Board of Governors would establish explicit statewide objectives as guidelines for district planning and state evaluation. Differences between district practices and statewide objectives would be reconciled through a series of positive consultative steps. If all corrective measures were unsuccessful, districts would be ineligible for program change funding. This sanction does allow for inflationary and workload funding. Thus, a district is advised not to start certain new programs until existing deficiencies are corrected. Existing students are not penalized by the withdrawal of basic funding.

*Resources*

The proposal for strong local decisionmaking is fostered by minimizing state-level constraints on the ways colleges plan, manage and schedule their human and physical resources. In some cases, this requires legislation to modify existing state-level constraints on staffing, calendar and course scheduling, facilities utilization, and student mobility.

Local salary-setting procedures and collective bargaining opportunities are to be maintained. The Plan does support legislation to add affirmative action implications to seniority as considerations in staff reductions or reassignments.

Problems with the employment of part-time faculty and with the funding of the State Teachers Retirement System (STRS) are discussed but no proposals put forth. The increasing need for staff development is reviewed and specific efforts are underway to develop programs to address this need.

The Plan proposes to eliminate existing restrictions on calendar and course scheduling by implementing successful features of the flexible calendar pilot program. This program, now in its fourth year in seven districts, changes the required academic year so as to provide greater flexibility in meeting student needs and more time for staff and curriculum development to improve the quality of instruction.

Use of small centers, existing community resources, and a variety of instructional techniques is encouraged. Existing techniques for determining utilization of college facilities would be continued, but review of utilization standards undertaken, emphasizing problems of college size and laboratory use. Greater flexibility in district lease and lease/purchase arrangements is supported along with greater state assistance to districts in facility planning and management.

The Plan proposes liberalizing current policies on interdistrict attendance by students, beginning in 1981-82. This would permit students to attend the college and district of their choice, subject to available facilities and affording admissions priority to district residents. District base budgets would be adjusted accordingly and limits on possible college enrollment losses allowed where the quality of an institution might suffer as a result of such losses.

## RECENT LEGISLATION

*Philosophy, Goals and Priorities*

No major changes in the basic community college mission are contained in 1979 legislation, although a number of implications for college priorities arise due to funding changes and maintenance of effort requirements.

Funding for all noncredit instruction is reinstated in Assembly Bill (AB) 8 after a one-year partial termination of state aid. Continued legislative concern about noncredit instruction is evidenced by a requested study of the topic. New maintenance of effort provisions in the Budget Act (SB 190) emphasize survival skills for older adults and adult programs in parenting. Legislation is silent on community services, though funds are continued, in theory, for this purpose in districts' base budgets.

Funding for handicapped programs increases dramatically and concern about the economically and educationally disadvantaged (through Extended Opportunity Programs and Services funding) continues. Both policies are consistent with recommendations in the Board's Plan.

*Support Techniques*

Legislation to support community colleges during the next two years incorporates the Plan's basic concept of a base budget with annual adjustments for inflationary, workload, and programmatic changes. AB 8 uses an incremental support rate (two-thirds of average cost) for workload changes and requires the Chancellor to study the concept of incremental costs in more detail with a report due to the Legislature by January 1980.

Equity adjustments, as recommended in the Plan, are accomplished in AB 8 by adjusting districts' inflationary changes. The standard inflation rate is set at 8.9 percent for 1979-80 and the California Consumer Price Index or 7 percent, whichever is less, for 1980-81, both in contrast to the Plan's proposed governmental goods and services index.

A major difference between AB 8 and the Board's Plan is the application, in the legislation, of incremental support rates to both 1978-79 and 1979-80 ADA changes, using 1977-78 base budgets rather than 1978-79 base budgets. This results in dramatic funding changes for a number of districts. The legislation attempts to correct this by setting gain and loss limits. All districts are to receive at least 4 percent more revenue in 1979-80 than they did during 1978-79. Also, no district can receive an increase in funding per ADA that exceeds 15 percent over last year or an increase in revenue which exceeds 8 percent plus inflation. It is estimated that 1979-80 funding increases for

districts under AB 8 will range from 4 percent to 18 percent. The average 9 percent increase in district operating budgets returns funding to about 1977-78 levels and provides for inflation and, possibly, moderate enrollment growth.

Another, perhaps the major, difference between the Plan and AB 8 is the inclusion of a fixed appropriation limit in the bill. The Plan argues against a fixed total limit. If the limit is exceeded due to more growth in ADA than expected, total funds will be insufficient and a "deficit" factor must be employed; that is, something less than a dollar can be allocated to districts for each justified dollar adjustment to district base budgets.

*Sources of Support*

As noted, AB 8 and SB 190 return state support and eliminate fee charges for certain noncredit instruction. Otherwise, there are no changes in fee or tuition policies.

The shift of property tax support from education to other local agencies, in AB 8, results in the local share of community college costs decreasing to about 20 percent, less than the Plan proposes. Capital outlay support in the Budget Act decreases to less than one-fifth of that amount eligible under the Construction Act. At the same time, COFPHE monies are expected to increase dramatically due to the oil situation. Many bills, all unsuccessful to date, have been introduced to add other agencies and uses to those eligible for these funds under current law.

Legislation was enacted to provide special districts with the ability to go before their electorate with proposals for new local (non-property) taxes. Community colleges were not included and appear to be prevented from proposing such taxes under existing law.

Another revenue feature of AB 8 is a deflator which reduces the overall level of support for local agencies in the event that revenues are less than expected due to a possible decline in California's economy. The potential impact of this provision on community college funding is uncertain.

Other legislation appropriates state general funds to the Employment Development Department for job training programs. It is expected that most of these funds will be used to support programs in community colleges. This is consistent with the Board's Plan, although it ignores the proposed matching feature whereby business and labor would participate in the financial support of such programs.

*Accountability*

Reference is made in AB 8 to the Plan's proposed program change funding. As a first objective, the Board is required to study the rates at which Californians participate in community college programs throughout the state and recommend, if appropriate, program change funding for 1980-81.

Budget Act provisions requiring the maintenance of certain programs at specific levels differ with the Plan's proposed accountability concept. In the Plan, specific programs, if deemed to be of statewide importance, would be encompassed in one or more statewide objectives and their relative priority established. District performance would then be reviewed by the Board and assistance and correction undertaken in those instances where district efforts are insufficient. This contrasts with the Budget Act requirement that the Chancellor reduce a district's funding where programs are not maintained sufficiently, based on student attendance and program expenditures.

*Resources*

Local collective bargaining and salary-setting continues under current legislation. There is increased legislative concern, however, about community college salaries, resulting in part from studies conducted by the Postsecondary Education Commission.

Legislation acknowledging affirmative action in staff reductions and reassignments has not yet been successful. Likewise, legislation addressing the part-time faculty issue and problems with STRS funding has been introduced but not passed.

The Legislature has not extended provisions of the flexible calendar pilot program, as proposed in the Plan. SB 186, the "trailer" bill to correct technical deficiencies in AB 8, however, does extend the pilot program for an additional year through 1980-81.

Incorporated in AB 8 is special funding to acknowledge the higher-than-average costs experienced in very large urban districts and in those multi-college districts with one or more very small colleges. These provisions are consistent with factors inherent in college size that are discussed in the Board's Plan.

Adjustments to the base budgets of districts in AB 8 reflect the local funds historically transferred between districts for the costs of interdistrict attendance. Legal provisions that can restrict the actual interdistrict attendance of students are not changed, however, in direct contrast to the Board's proposal. The potential impact of these policies together with the newly-adopted support techniques is uncertain.

# III

# PHILOSOPHY, GOALS, AND PRIORITIES

## BOARD PROPOSALS

*General Philosophy*

*The Long-Term Community College Finance Plan is designed to preserve the community colleges as a major and valuable resource for the people of the State of California. The Plan seeks seeks cost-related funding techniques which will: assure future stability; engender effective delivery of educational services required in local communities; and provide incentives toward statewide educational goals. Districts should be afforded flexibility in using their resources, and accountability procedures should emphasize long-term planning and results.*

*Mission, Goals and Priorities*

- *Maintain the fundamental mission and goals of California Community Colleges:*
    - *postsecondary, less-than-baccalaureate, devoted to the life-long learning of California adults*
    - *comprehensive, including general, transfer, occupational, developmental and community education*
    - *strongly community-oriented*
- *Continue policy of open admissions for California residents.*
- *Identify and make explicit statewide educational interests which must be reflected in the districts' planning and accountability process.*
- *Establish community services as one of the statewide objectives to be treated in the proposed planning and accountability process.*

- *Within the framework of statewide educational interests, insure that districts have the flexibility to plan and to allocate resources in response to local needs.*

- *Provide districts with the maximum flexibility feasible for planning and managing their facilities, consistent with statewide interests.*

- *Set capital outlay priorities consistent with legislative intent, Board planning objectives, and district master plans according to the kind, purpose and need for facilities.*

- *Support the concept of a "balanced college" that provides facilities which are consistent with the accepted role of the college in its community. These facilities may include space for library, learning resources center, gymnasium; performing arts, outdoor physical education and acquatic facilities, space for administration; and instructional space related to enrollment needs.*

MISSION

Many proposed changes in college mission were considered by the Board in its study. Most changes were deemed inappropriate and there is no consensus on any fundamental change. A group of community college experts, convened from across the nation, also agreed on the need to maintain the comprehensisve mission of California's community colleges and their strong community orientation. (See summary of this seminar in Appendix B.)

The primary policy of Proposition 13 was to reduce the reliance of local government on a tax tied to the assessed valuation of real property. For several years in California, property values had increased at rates far exceeding the growth in personal income, needed governmental expenditures, and most other indices of economic activity. A second, perhaps indirect message, as interpreted by most public officials, was to economize and make more efficient governmental services. There was no mandate to decrease services or to eliminate certain individuals from eligibility for services.

Proposition 13 carried no specific mandate to change the basic purposes of California Community Colleges, which are quite similar to those of other community colleges nationwide. (See survey of other states in Appendix C.)

## GOALS

Long-term finance reforms were evaluated for their impact on the Board of Governors' eleven goals, adopted in its first five-year plan.

Board goals most important for finance proposals are:

- equal opportunity for access
- diversity of programs, methods, and services
- effective and equitable distribution of funds
- effective use of human and physical resources
    - fostering of staff excellence
- policies that encourage innovative and creative developments

Other Board goals include:

- preservation of academic freedom
- extensive use of community resources
- responsible evaluation
- effective inter-institutional cooperation and planning
- timely consultation with all concerned segments

## PRIORITIES

Present and future restrictions on taxes, possible expenditure limitations, and likely economic conditions suggest a new fiscal direction for community colleges. Under current law, public revenues do not appear sufficient over the next decade to provide the same level of support community colleges have experienced over the past three decades.

While the fundamental mission may remain unchanged, program priorities will have to change. In fact, there is evidence that college priorities are changing already. Cutbacks and budget reallocations were significant last year, particularly in noncredit instruction and community services. To a large extent, changes were mandated by state law. Half of the districts reported difficulty meeting one or another of these specific mandates.

### *Local Flexibility*

Community colleges need greater flexibility if they are to continue to be community-oriented, become more cost-effective (as they must with scarce funding), and set priorities effectively. This includes flexibility to allocate funds among competing local uses and to plan and manage college operations. This greater flexibility can be accomplished in part by removing many existing legal constraints on the use of college resources together with a major change in college accountability from emphasis on short-term efforts to emphasis on long-term planning and results.

*Statewide Priorities*

In addition to reviewing local priorities, the Board of Governors should adopt procedures for identifying and proposing explicit statewide priorities.

Besides existing priorities on traditional college functions and certain, categorically funded clientele:

- educationally and economically disadvantaged
- handicapped
- occupationally-oriented

other specific priorities such as

- developmental (basic skills) education
- counseling, career guidance, and job placement
- career retraining
- instructional improvement (faculty, curriculum, and teaching methods development; academic standards; etc.)
- student retention
- administrative improvement
- staff development
- affirmative action

could be identified and addressed in relation to funding.

The Board of Governors could establish these priorities by adopting a number of explicit statewide objectives. Districts would be expected to reconcile their efforts with these objectives in a comprehensive plan submitted each year to the Chancellor's Office.

The community college capital outlay program should provide districts with the maximum flexibility feasible for planning and managing their facilities. Consistent with this concept, statewide project priorities must be explicit and should recognize the increasing importance of remodeling, alterations, and major maintenance in contrast to the decreasing importance of new construction. Capital outlay plans would form an integral part of annual comprehensive plans and updates submitted by districts to the Chancellor's Office under the Board's proposed planning and accountability procedure (see Section VI).

The Board of Governors should support, in principle, the concept of a "balanced college," that provides facilities which are consistent with the accepted role of the college in its community. These facilities may include space for library, learning resources center, gymnasium, performing arts, outdoor physical education and aquatic facilities, space for administration, and instructional space related to enrollment needs.

Under this concept proposals for public funding of facilities include evidence that the facility need is consistent with the state approved role of the college with respect to its operational and educational master plan, that there is specific justification for the proposal, and that other projects and sources of funds are considered by the district.

# IV

# SUPPORT TECHNIQUES

## BOARD PROPOSALS

*Operating Budgets*

- *Begin with each district's 1979-80 base budget, comprised of state and local tax revenues for instruction and community services.*

- *Adjust base budgets where necessary to insure quality of access to educational services. The finance plan must recognize and preserve or adjust legitimate and desirable differences among college districts, while at the same time work to eliminate, within a reasonable phase-in period, the equitable effects of district wealth and tax-rate and of former block grant funding techniques.*

- *Adjust base budgets to separate those tax revenues intended for capital outlay, as opposed to operating budget, purposes.*

- *Make annual changes to the base budget for*

    - *inflation, using an index of costs such as that describing State and Local Government Purchases of Goods and Services;*

    - *workload changes in instruction and other services, using marginal or incremental, rather than average or total, support rates; and*

    - *program changes, the rationale for which would be included in the districts' plans and with extra funding, if necessary, sought from the Legislature.*

- *Use several measures and related support rates, rather than one, to recognize the differential costs of workload changes in instruction and other services.*

| | (activity) | (measure) |
|---|---|---|
| a) | traditional classroom instruction (recognize and reflect extreme marginal cost differences in the delivery of classroom instruction) | student classroom contact hours |
| b) | individualized instruction | student credit hour or other appropriate measure(s) |
| c) | support services (learning resources centers and student personnel services) | student headcount enrollment |
| d) | administration | character and size of non-administrative staff |

- Eliminate average daily attendance (ADA) but retain the classroom contact hour as the basis for funding changes in instructional workload, and

    - utilize periodic course census counts, rather than positive attendance in noncredit and short-term credit courses,

    - eliminate the standard discount for non-attendance in credit courses,

    - adjust the marginal support rates to ensure that no monetary gain or loss results from this nominal change in measuring student workload.

- Place minimum restrictions on use by districts of base budget funds consistent with appropriate accountability for state educational interests.

- Retain existing categorical aids for the educationally and economically disadvantaged. Pursue Board-established goals for these programs as a supplement to the base budget. Revise funding policies for handicapped programs and make the process more like that for Extended Opportunity Programs and Services (EOPS).

- *Retain and increase (for inflation) base budget revenues formerly derived for community services. Provide public funding for <u>one-half</u> of the marginal cost of future changes in community services classes, including certain noncredit classes formerly funded under instruction (those categorized in 1978-79 as "non-state funded"). Do not restrict use of funds derived. Allow fees to be charged for the unsupported portion of community services classes and all other community service activities. Fees should be adjusted for those unable to pay.*

*Capital Outlay*

- *Make greater use of formulas to determine facility need, particularly in those priority areas with many relatively small projects, such as alterations, remodeling, and major maintenance.*

- *Include in formulas factors such as future enrollments, educational and programmatic needs, expected delivery techniques, and the size, kind and age of existing facilities.*

- *Establish a series of project scope limits delineating for each the review activities and responsibilities, if any, by the various state-level agencies.*

- *Provide for exceptional cases through appropriate review processes.*

- *Incorporate capital outlay review within the Board's recommended planning and accountability process.*

- *Adjust the standard state/district capital outlay matching ratio(s) for individual district "ability," relative to statewide averages, based upon a combination of:*

    - *reserves available for capital outlay,*
    - *tax revenues per student, and*
    - *size in terms of enrollment*

- *Adjust the standard matching ratios if one or another of the recommended funding sources are insufficient in a given year, providing districts with the option of alerting their project scope, matching share, or both.*

## OPERATING BUDGETS

Funding for the long term should maintain present categorical aid programs in approximately their same relationship to general funds whose use is not specified. Funding should be workload-driven and provide adequately for year-to-year changes, note cost differentials, establish desired incentives, and be accompanied by an effective planning and budgeting process. Several measures of workload, rather than one (ADA) appear to best serve these objectives.

The proposed funding technique for college operations provides a stable base budget to which adjustments are made annually. Adjusting at marginal (rather than average) rates eliminates unwarranted incentives for growth and should take the place of an aggregate state-imposed ceiling on funding which can be devisive and complicating. A simplified version of the technique is illustrated in Appendix D.

### *Locus of Decisions*

No other large states use negotiated budgets for community colleges. (See Appendix C for summary of other states' financing.) To do so would require a large expense to replicate the necessary variation in local decisions. Negotiated budgets maximize input accountability. The latter may be secured by other means.

General aid enhances effectiveness of local board decisions. Categoricals are not used extensively in other states where accountability is secured by other than categorical control means. Present state-supported categoricals are relatively nominal and based upon clientele.

Funding policies and procedures for EOPS are well established. Such is not the case for handicapped programs, however. Community college programs for handicapped students have grown enormously in the past three years (approximately 500 percent), and there is every reason to expect growth to continue. At the same time, the existing funding mechanism has constrained that growth by tying funding to statewide total average daily attendance.

Consideration needs to be given to converting handicapped funding to a categorical program, similar to EOPS in its policy to fund "full need," and in its allocation procedure.

### *Cost Differentials*

Historic district cost differences result from a combination of factors, some of which (size, community, instructional mode, etc.) ought to be observed, while others (wealth and tax differences) ought not to be observed, but, rather, corrected. This distinction is crucial in making "equity" adjustments to district "base" budgets.

Use of one support rate may provide undesirable incentives, mitigating against offering high cost programs even though the need is present. Use of many rates requires elaborate cost accounting and may be self-fulfilling. Differences in costs are a function of delivery techniques: faculty load, class sizes, equipment, and developmental costs, rather than program or subject area.

Recently in California, a small district formula and demographic factor adjusted state aid per ADA to districts in order to correct for size and demographic differences. State aid per ADA also was adjusted for local wealth differences in an attempt to equalize total revenue per ADA among districts. As the proportion of the budget funded by local taxes decreases, equalization for local wealth becomes less important.

Past funding mechanisms also provide the same amount of revenue per ADA regardless of the cost of generating that ADA. Consequently, low cost offerings subsidized high cost offerings. A college wishing to provide a full program in an expensive area must have generated sufficient ADA in a less expensive area in order to cover the cost. This problem was especially acute for small single-campus districts.

Attempting to correct the problem by providing differential funding by program presents many difficulties. While it may be possible to determine cost differences among programs, many of the differences are a function of how long the program has been offered or the predominant instructional technique used. New programs with new faculty cost less than older established programs simply because of the difference in salary costs and, other factors being equal, the same program in a new college will cost less than in an old college. A program which relies heavily on labs and shops will cost more than the same program which relies primarily on lecture sessions or independent study. Attempting to adjust funding rates for college size, geographic location, demographics, methods of instruction and, at the same time, program mix (corrected for the age of the program) appear too complicated.

The long-term Plan proposes utilizing a limited number (five) of distinctions related to the method of delivering instruction and other services. By utilizing measures that are more closely related to costs, present fiscal incentives should diminish somewhat, thereby encouraging districts to plan and implement programs because they are needed, not because they generate a certain level of revenue.

*Marginal Costs*

One of the most significant proposals in the long-term Plan deals with the use of marginal, rather than average or total, costs to measure the changes in workload and funding needs that districts experience from year-to-year.

Funding formulas traditionally have been based on average costs. Marginal costs differ significantly from average costs and are the more appropriate concept for year-to-year funding changes. Marginal costs are lower than average costs in the typical community college.

A simple example illustrates the difference between the concepts. The initial equipment and other fixed costs for drafting, for example, may be quite high, while the cost of adding one or several students to the program is nominal. This is because the added students merely fill existing course sections and few added demands are put on the library, counselors, and other college supporting services. The average cost per student is high (due to the high fixed costs and, therefore, high total cost) but the marginal or incremental cost to add a student or students is low.

The marginal cost concept will be even more significant in the future since some districts will be declining in enrollment as well as increasing in enrollment. In the past, nearly all districts were increasing each year. Funding a growing district at the average rate is likely to be excessive since the average exceeds the marginal cost for that growth. Funding a declining district at the average rate, likewise, is inappropriate since it reduces revenue more than the district can reduce expenditures.

*Measures*

Measures for determining fiscal support may be based upon need, activity, or performance. The long-term Plan proposes using need and activity for determining funding and incorporating performance or output measures in the accountability process.

In the past, community college finance formulas have relied on one aggregate measure (the classroom contact hour converted to average daily attendance, ADA) to determine support for all college activities.

Several different measures of activity or workload in the separate areas of instruction, support services, and community services are needed to go along with the differential support rates. For example, it is suggested that support service (library, counseling, registration, etc.) costs are more a function of enrollment than of classroom activity.

A possible shift from the contact hour to the credit hour for measuring instructional workload has been reviewed. The contact hour presently acts as a rough proxy for the cost differences that exist between laboratory and lecture instruction (see example in Appendix E). Use of a credit hour

would require differential support rates for laboratory and lecture. Defining and measuring these categories on a common basis throughout all districts would be extremely difficult, if not impossible. In addition, the differential rates could have a constraining effect on faculty workload determinations within local collective bargaining. Consequently, the Plan recommends against using the credit hour for traditional classroom instruction.

Individualized instruction, however, does require a different approach. This instruction may, in the case of television or independent study, require less than the traditional amount of contact per credit. By contrast, another example of this kind of instruction - self-paced, mastery learning - may require more than the traditional amount of contact per credit. Both problems require study and solution, in a manner different than that for traditional classroom instruction.

*Attendance*

Use of average daily attendance (ADA) by community college districts is a holdover from an earlier K-14 system of school finance. In that system, attendance is taken daily during 175 regular school days, a concept which relies on physical presence or excused absences and is clearly not relevant for postsecondary education.

Community colleges do use two census counts of active enrollment to calculate ADA in term-length credit classes. However, legal requirements that attendance be taken at each class meeting in noncredit and short-term credit classes continue and do not represent a productive use of faculty time.

The average of two counts should be utilized for all credit courses. More than two (but less than every meeting) counts may be preferable in noncredit courses due to their open entry-open exit nature. In many of these courses individual students may complete stipulated objectives at different times, and there may be seasonal fluctuation in enrollment as well.

The proposed census counts and elimination of the artificial discount factor of about 9 percent for "unexcused absences" would shift community colleges away from the notion of ADA. The Board of Governors has proposed continued use of a classroom contact hour to measure and fund student instructional workload. This measure can be derived by census and be the basis for any measure of "full-time equivalency" that may be needed. These proposals will result in changes in calculated contact hours even though actual workload is not changed. Consequently, marginal support rates will need compensating adjustment in order to avoid unwarranted gains or losses in district budgets.

*Community Services*

General Board of Governors' policy stresses a "strong community-orientation" for colleges and acknowledges the function of community education. In theory, a significant amount of funding, for community services purposes, remains in community colleges' base budgets.

In order to recognize community services as an important contribution of community colleges to the life-long learning of Californians and provide incentives for the conduct of community services, the Board recommends the following principle:

> Retain and increase (for inflation) district revenues formerly derived for community services. Provide public funding for one-half of the marginal cost of future changes in community service classes, including certain noncredit classes formerly funded under instruction (those currently categorized as "non-state funded"). Do not restrict use of funds derived. Allow fees to be charged for the unsupported portion of community service classes and all other community service activities. Fees should be adjusted for those unable to pay.

Alternative policies for community service funding include such options as the following:

- Provide community service funding at 90 percent of 1977-78 levels in a designated program budget. If funds "intended" for community services were not so used by districts, they would be subtracted from the following year's budget allocation.

- Transform community services to a categorical aid program, similar to EOPS.

Neither option is consistent with the Plan's general policy for long-term finance, calling for

> "...minimum restrictions on use by districts of base budget funds consistent with appropriate accountability for state educational interests."

## CAPITAL OUTLAY

The community college capital outlay program should provide districts with the maximum flexibility feasible for planning and managing their facilities. Utilization of existing college and community facilities should be encouraged. The emphasis of state activity should be shifted from detailed pre-audits of proposals to post-audits of facility utilization and general space management efforts along with assistance to local districts. Formula-based determinations of capital outlay need should be emphasized, utilizing advisory committee expertise to the extent practicable. There needs to be a reliable source of on-going funding for community college capital outlay.

Statewide project priorities should be explicit and should recognize the increasing importance of remodeling, alterations, and major maintenance in contrast to the decreasing importance of new construction. Capital outlay plans would form an integral part of the annual comprehensive plans and updates submitted by districts to the Chancellor's Office under the Board's proposed planning and accountability procedure.

### *Priorities*

Each year the Board of Governors should set capital outlay priorities along with the statewide objectives that initiate the planning and accountability process. Capital outlay priorities are set on the kind, purpose, and need for college facilities. Once set, each priority group could be assigned a differing state/local matching basis to establish desired incentives. Districts with substantial capital outlay reserves and/or operating budget revenues would contribute a higher portion towards the local matching share of a proposed project.

Hopefully, these priorities can be fully funded. If, however, there are insufficient funds to meet the Board of Governors' requests (the "rule" since 1975), available funds should be allocated proportionately among priorities unless the amounts become so small that the sizes of projects are reduced below their viable minimum. In such cases, the Board would have the option of funding fewer projects at relatively higher rates or funding all projects at the lower rate. In the latter case, districts would have the options of increasing the local match, reducing project scope, or phasing the project over a longer period of time.

For example, suppose "District A" is expected to provide an average local match of 30 percent of project cost. Suppose also, however, that the state provides only 50 percent, rather than the expected 70 percent, of community college capital outlay costs. Under this proposal, the Board of Governors could decide to fund all projects at the 50 percent matching level. "District A" then could either (1) increase its matching funds from 30 percent to 50 percent of the total cost and proceed with the entire project, (2) maintain its matching share but reduce the project scope by 20 percent, (3) phase the project funding over two or more years, or (4) pursue some combination of these alternatives. Under current Construction Act procedures, the Board can only support fewer projects when overall funding is insufficient. Other projects are deferred, sometimes at substantially greater eventual cost.

*Funding Formulas and Project Review*

Greater use should be made of entitlement formulas which identify the difference between facility need and capability. This is particularly true of those priorities encompassing many relatively small projects such as alterations, remodeling, and major maintenance. In this case, state-level project pre-audit review would be minimal. Only relatively large projects, perhaps just those exceeding $100,000 in cost, would continue to be reviewed in detail by the Chancellor's Office and perhaps just those above $500,000 be reviewed in detail by the Department of Finance, Post-secondary Education Commission, and Legislature.

Formulas for remodeling, alterations, and major maintenance should be based upon the size, age, and character of existing facilities along with anticipated future changes in programs to be offered and anticipated enrollments by discipline. A more qualitative process for handling exceptional cases should also be available.

Existing space utilization analyses should be continued for major projects providing instructional capacity. Formula entitlements would determine appropriations in each of the priority areas. Within their appropriations, districts would be required to submit individual projects for review, the rigor of which would vary, depending upon the particular priority. In all cases, review should emphasize post-audit space management, rather than detailed pre-audit project review.

*Matching*

Some district matching should be a part of every project. However, the concept of relative district ability (RDA), based upon assessed value per weekly student contact hour, is no longer valid since districts no longer have any local taxing capability. What capabilities existed in the form of revenues brought forward in district target budgets for Construction Act matching or lease/purchases will be eliminated from base budgets and, hopefully, reallocated to a statewide Community College Capital Outlay Fund once the original obligations on these funds have been fulfilled.

A more appropriate measure of district matching ability is some weighting assigned to each of (a) planned use, over a reasonable period, of district reserves previously committed to capital outlay and (b) recognition of operating budget revenues per student. Some provision should also be made for the size of the district. Small districts require core facilities which would not otherwise be justified in terms of utilization standards because of low enrollments. The revenue base of small districts may also be inadequate for participation in a needed capital outlay project.

It is estimated that districts held over $100 million in Special Reserve Fund and Building Fund reserves for capital outlay purposes prior to Proposition 13. In addition, some General Fund reserves were held by districts for capital outlay purposes. The level of such reserves varies dramatically from district to district. Assessment of district matching capacity should recognize these variations and should include the expectation that districts will reassess capital outlay commitments made prior to Proposition 13.

The post-Proposition 13 "block-grant" funding technique for 1978-79 and funding for 1979-80 and 1980-81 all have dramatic consequences for the amount of operating budget revenues per student available in each district. Since current revenues may well be one source of district capital outlay matching, it is recommended that variations in the level of district operating revenues per student also be included in an assessment of local matching capabilities.

These techniques are solely for purposes of determining the matching amounts for projects. Once the matching amount is calculated, districts should have the option of determining where and how to produce the actual matching funds. Among these options should be provisions for districts to borrow their matching requirements from the state or to secure private support for these purposes. Where applicable, the use of available federal funds should be made a requisite for state support.

# V

# SOURCES OF SUPPORT

BOARD PROPOSALS

- *Rely on a variety of revenue sources.*

- *Fix or increase the current community college portion of local property tax revenues.*

- *Rely on local property tax and State General Fund revenues to provide the "base" district operating budget described under Support Techniques.*

- *Supplement the base budget (at district discretion) by other sources, including:*

    - *state matching funds for occupational education contracts with business, labor, and other public agencies;*

    - *voted local (other than property) taxes;*

    - *federal funds;*

    - *other (sales, rentals, interests, etc.); and*

    - *student and other user fees.*

- *Provide local districts with capability to authorize and manage local taxes voted (by 2/3 of electorate) specifically for community colleges.*

- *Provide supplemental state general funds as matching grants for contracts districts make with business, labor, and other public agencies for occupational education.*

- *Seek added federal funding for certain support services and capital outlay.*

- *Develop an appropriate statewide rationalization of district reserve policy reflecting sound management policies.*

- *Eliminate restrictions on certain fund balances raised from specific permissive property taxes, such as the community services tax, that existed prior to Proposition 13.*

- *Establish a state-level Community College Capital Outlay Fund, made up of:*

    - *those revenues which become available as obligations under the pre-Proposition 13 Construction Act matching and lease/purchase taxes are fulfilled; and*

    - *an allocation of Capital Outlay Fund for Public Higher Education (COFPHE) monies, based upon facility need and a minimum reasonable share of the funds available from the COFPHE for public education.*

- *Match the state-level Fund by:*

    - *use of any district source, including reserves, current state and local tax revenues, federal, or private funds; or*

    - *borrowing the district share from the state, to be repaid from future apportionments over a scheduled period of time.*

- *Reject use of tuition for California residents.*

- *Oppose any student charges (tuition) for instruction, defined as follows:*

    *Instruction includes all classroom lecture and laboratory instruction and independent study offered for credit as well as noncredit instruction in the areas of adult basic education; English for foreigners; citizenship for foreigners; vocational and occupational training and retraining, including apprenticeship; special courses for handicapped adults; and courses designed for or primarily attended by senior citizens.*

- *Support a permissive fee charge, consistent with Board policy on such fees, for community services, defined as follows:*

  *Community services include all noncredit instruction classes, cultural, recreational and civic center activities exclusive of that defined under instruction above. Such services include activities currently authorized by the Education Code.*

- *Maintain existing permissive student fees and*

  - *insure that fee revenues are used to support only those services for which the fees are levied,*

  - *adjust the charges for those unable to pay.*

Evidence suggests that a variety of sources, rather than just one or two, best meets the usual criteria for determining public community college revenues. This variety should include at least the current share of local property tax revenues and the traditional (pre-13) level of State General Fund support. A series of additional sources are analyzed for their use in providing needed support once the "bail out" distribution of State General Fund surplus to local agencies is discontinued.

## OPERATING BUDGETS

*Existing Sources*

| Distribution | General Fund Pre-13 | Operating Budgets Post-13* |
|---|---|---|
| Federal | 7% | 7% |
| State | 41 | 65 |
| Local | 47 | 24 |
| Student Fees | 2 | 2 |
| Other | 3 | 2 |

*1978-79 estimate

*Property Taxes*

Several arguments may be made in support of maintaining or increasing the proportion of community college operating budgets supported by local taxes. One, somewhat theoretical, argument is that a significant portion of the benefits of any community college are bounded locally: that is, individuals within a community college's service area or labor market area benefit to a greater extent from the college's programs than do individuals outside the

area. Consequently, those within the service area should contribute to a greater extent. The fixed nature of property tax rates after Proposition 13 tends to obscure the full impact of this argument, however.

The tax on property does constitute a relatively stable source of revenue which should exhibit a generally predictable growth pattern, assuming no further rate changes are legislated.

Another argument for local tax support of community colleges is that its existence preserves a strong local voice in college decisionmaking and provides the incentive for local boards to effectively represent local needs. This may well be the case. However, review of funding sources and techniques in other states does not generally support the popular notion that control of decisions follows the major source of funding. There is no reason to believe that, short of close to 100 percent state or 100 percent local funding, the division of state and local prerogatives need be precisely related to the division of fiscal support.

*New State or Local Taxes*

In keeping with the justification for a significant local share and local commitment, local districts should have the capability to authorize and manage local taxes that might be voted (by 2/3 of electorate as per Proposition 13) specifically for community colleges.

Dedicated taxes, such as a percentage of the sales tax restricted for community college use, bear no particular relationship to the need for college revenues. In fact, when certain tax revenues are lagging and economic activity decreases, community college activity increases. This is because the decreased employment opportunities will cause many to enroll where they would not have if such opportunities were better.

*Private Contribution Through State Matching Grants*

One possible source of revenue for community college operations is a greater contribution from the private sector resulting from increased work by colleges with business, industry, and labor unions in training individuals for first careers, new and different careers, and skills upgrading on present jobs.

State incentive grants, beyond base budget support, could be provided on a matching (dollar for dollar) basis to those districts with whom business and labor unions contract for occupational training. The state subsidy (a) could support developmental as well as operational costs, (b) makes the college "competitive" in the cost it can offer to business and labor, and (c) is justified by the collective benefits that accrue from better labor market functioning. The arrangements might need to be exempt from the present legal requirement that classes be "open" to any individual if there is public subsidy involved. A more flexible arrangement for utilizing staff in the instructional process also needs to be examined.

Several factors argue for greater efforts by community colleges in occupational training to be accompanied by greater fiscal support from business and labor. In spite of the several suppliers of trained manpower, many fields are in short labor supply in California. One of the numerous consequences of Proposition 13 was to reduce the tax contribution of business and industry to community college support by nearly $200 million during 1978-79 or more than one-fourth of the pre-13 tax subsidy. In view of the community colleges' role in occupational training, it can be argued that some restoration of this contribution through contracts or other means is warranted.

Occupational education comprises nearly two-fifths of community college instructional efforts. However, specific apprenticeship training and cooperative work experience programs together form less than 6 percent of all college instructional activity. Federal funding for community colleges under the Vocational Education Act of 1976 amounted to $25 million, less than 10 percent of estimated expenditures for occupational training programs statewide. Many of these programs were higher-than-average cost due to the need for small enrollment labs and shops together with large complements of equipment. As funding becomes increasingly scarce these programs become disproportionately more difficult to conduct.

Increasingly, business and industry, particularly larger corporations, are doing their own occupational instruction - instruction the community colleges are well qualified to conduct. Labor unions increasingly allocate funds for the further education of members. The conduct of apprenticeship and other training programs for union members by community colleges is common throughout the country. It would appear that California Community Colleges could expand efforts in apprenticeship training, now amounting to some 27,000 ADA each year, and possibly develop other cooperative arrangements with labor.

*Federal Funds*

California Community Colleges last year received an estimated $90 million in federal institutional aid, most of which is categorically designated for specific programs. Up to 1977-78, a portion of the state apportionment was derived from federal revenue sharing monies dedicated by the state for education. This is no longer the case, however.

Increases in federal aid for community colleges could be argued, theoretically, on the basis that substantial benefits from California Community College education accrue to individuals outside California due, in part, to the migration of educated Californians to other states.

Even if study supports a greater federal share, this source is typically categorical and not always useful in solving general revenue problems. Chances of gaining further federal revenue sharing monies may be improbable, given the primary objective of such funds; i.e., to assist cities and other units of local government.

In spite of these complexities, however, efforts need to continue to justify and secure various sources of federal aid as part of the long-term funding for California Community Colleges.

One indirect source of federal aid is the Comprehensive Employment and Training Act (CETA) program. Five percent of CETA program funding, or $10.4 million in California, is devoted to vocational education. These funds are managed by prime sponsors, cities and counties, typically using contracts with various educational agencies. It is estimated that community colleges conducted programs valued at $1.6 million last year under contracts with CETA prime sponsors. This activity amounted to less than 16 percent of all such training in the state.

*Reserves*

Reserves constitute a stock, not flow, of revenue. Once spent, reserves do not necessarily reappear. Most existing district reserves are restricted for capital outlay purposes. The need for unrestricted reserves varies among districts. Reserves should, therefore, be considered an alternative source for capital, but <u>not</u> operating, budgets and be applied equitably.

Proposition 13 effectively eliminated a number of permissive local property taxes whose revenues were restricted to specific college programs and activities such as community services. While the specific taxes are

eliminated, balances remaining from prior years are still restricted to these specific purposes. In some cases, these purposes may not rank high among current priorities and could be put to better use elsewhere in a district. Existing legal restrictions on the use of these balances should be removed.

CAPITAL OUTLAY

Current five-year capital outlay plans of districts indicate a possible statewide need of $520 million over the next five years. This need is made up of $353 million in projects normally funded by the state and $167 million in projects normally supported in total by local funds.

Unless reduced by application of new priority criteria, requirements for state-level support appear to exceed revenues expected to be available from the Capital Outlay Fund for Public Higher Education (COFPHE). While entitled to support from this fund, community colleges have never received their apparent "share," given statewide need. A simple formula based on comparative capacity/need among the several segments of higher education that use this fund could solve this inequity.

Tidelands oil revenues, the principle source of COFPHE monies, were estimated in 1978 by the State Lands Commission and Department of Finance to be:

| | |
|---|---|
| 1978-79 | $ 52.0 million |
| 1979-80 | 51.4 |
| 1980-81 | 47.6 |
| 1981-82 } | 50.0 |
| 1982-83 | |

A gradual decline in annual revenues was expected unless federal regulations controlling the prices at which crude oil is sold are modified. Higher oil prices will result in significantly increased revenues. More recent estimates put the revenue at much higher levels.

It is evident that local and state sources other than COFPHE monies must be sought for even a part of the districts' planned construction to occur. Other sources for capital outlay funding include: State General Funds, private funding, available district reserves and revenue or general obligation bonds.

There is a need to establish a permanent Community College Capital Outlay Fund replenished annually from combined state and local general sources to provide stable, ongoing funding of approved district capital outlay projects.

Such a fund could be created by diverting and earmarking that portion of bail-out monies attributable to the pre-Proposition 13 taxes for district (a) capital outlay matching, and (b) lease/purchase obligations after the projects have been completed. In three years these uncommitted monies will amount to more than $40 million annually. As district reserves are reduced, this fund can serve as a preliminary source, supplemented by COFPHE monies, for financing up to full cost of district capital outlay projects.

## STUDENT CHARGES

Aside from nominal fees levied upon older part-time students prior to 1976, and those levied for certain noncredit courses at present, California Community Colleges have been tuition-free for California residents. Non-residents have paid full or nearly full-cost tuition, however.

The distinction between tuition and fees used here is that traditionally used for higher education and defined by Webster, where tuition is "the price of or payment for instruction." Thus, California Community Colleges were truly tuition-free for California residents during the two years prior to Proposition 13, even though state law provides for more than twenty student fees. Fees charged for noncredit instruction in 1978-79 should be considered tuition. Charges for job placement would be considered fees.

### *Tuition*

As a practical matter, community colleges could not impose tuition without considering the consequences relative to the University (UC) and State University and Colleges (CSUC). Thus far, both segments have held their charges close to pre-Proposition 13 levels. A unilateral increase in student charges by community colleges would result in many UC and, particularly, CSUC eligibles enrolling directly in lower division at those institutions. The resulting shift in enrollment would disrupt the division of labor that has evolved during the past two decades under the California Master Plan for Higher Education.

Tuition could not feasibly replace those local property tax revenues lost because of Proposition 13. A tuition of nearly $800 per ADA annually would be required to raise the more-than-$500 million loss in local tax revenues. This tuition charge would be considerably higher than the approximate student charge at UC ($700) or at CSUC ($250). A more "moderate" charge of $100 per ADA annually would produce less than $70 million or just 5 percent of community college budgets statewide.

Given the history of the community colleges, it is likely that few states would charge tuition if other sources of funds were available. The community college movement since its inception has emphasized the desirability of a no-tuition policy, and other states support that concept. But, facing shortfalls of funds, other states have discovered no alternative but to use tuition as a source of funds. Some areas (such as New York City and Chicago) did not charge tuition until recently. Other state officials indicate that if alternative sources had been available, they would not have charged tuition.

The financial constraints which cause the imposition of tuition do not automatically disappear with its imposition. Most funding problems seem to persist. When no additional funding is forthcoming from alternative sources, further increases in tuition occur. Tuition increases have been repeatedly used to remedy funding problems in those states reviewed by staff.

Empirical studies suggest that a $100 increase in student tuition typically would result in a decline of enrollment between 1 percent and 3 percent, and that most of the enrollment decline occurs among students with lower incomes. However, virtually all these studies are based upon data for full-time students in four-year institutions where $100 represents a much smaller proportionate increase in student costs than it would in most community colleges.

Preliminary findings from staff study of community college student fee charges and enrollment nationwide suggest that a $100 increase in costs would result in percentage enrollment declines far greater than those found in previous studies. This is to be expected. An increase of $100 in costs represents nearly a one-third increase in the cost (fees plus transportation) for the typical community college student across the nation. The typical community college student also may be more sensitive to cost increases, for a variety of reasons, than is the younger, typically full-time student in the four-year institution.

In another staff study, a representative sample of fall 1978 California Community College students were asked to indicate what they would do in the event a tuition of $4 per semester unit (approximately $100 per year for a full-time student) were charged. Responses suggest an enrollment decline of at about 17 percent. A number of other students indicate they would either seek financial aid, take fewer units, or attempt to earn more working. Less than half of the students indicate the tuition charge would have no effect on them.

Experience in fall 1978 with fees for noncredit courses tends to support these findings. Twenty districts levied fees averaging $15 per course, although the variation in charges between districts was dramatic. While expected student fee revenues (an estimated $870,000 statewide) were not significant, the impact upon enrollment in fee-supported classes appears to have been significant. Approximately 2,000 such noncredit courses for which fees could be charged were scheduled to be offered. Nearly 900 of these were cancelled subsequently because fees were charged and resulting enrollments were insufficient to make the courses self-supporting.

A typical criticism of public funding for higher education is that lower income taxpayers subsidize students from higher income situations and therefore, the redistributive consequences are "regressive." It is argued, therefore, that student tuition with effective financial aids for those unable to pay would result in a more equitable redistribution of opportunities; i.e., actually enhance access. An analysis of California Community Colleges by Weisbrod and Hansen, using data for 1964-65, suggested that those receiving the benefit of college programs were from the same income categories as those who were subsidizing college programs: a "neutral" redistribution. This study has engendered considerable controversy, but its findings, if anything, tend to understate the extent to which high income taxpayers subsidized opportunities for low income students in California Community Colleges during the 1960's.

The advent of significant federal student financial aid and the EOPS program since the 1960's likely have resulted in the present redistribution of community college educational opportunities being more "progressive;" that is, those who benefit from community college education are from even lower income categories than those who pay for that education through tax subsides. If this is the case, the present policy of near zero tuition seems to be serving the Board goal of equal opportunity for access quite well.

Also of major importance are those financial aids and aid management that would be necessary if tuition were charged, in order to better achieve the goal of equal opportunity for access. The 1978 Middle Income Student Assistance Act increases the number of individuals eligible for federal Basic Educational Opportunity Grants (BEOG) and guaranteed loans. BEOG's, however, are limited to one-half of any increase in student charges and cannot be provided to part-time students carrying less than a half-time load. Aid is forthcoming only after changes in appropriations and, in the case of campus-based programs, some delay to recalculate the California experience. The ability of state aid programs such as EOPS or Cal Grants to fill in the gap is limited by the amount of funds available and criteria for eligibility. Additional aid would be needed.

Aside from the added financial aid, increasing or maintaining access in the face of tuition would assume that (a) individuals are aware of the available aid, (b) individuals will apply for aid, (c) reasonably accurate financial need determinations can be made, and (d) aid can be distributed in a timely fashion to students. These assumptions all would suggest the need to expand community college financial aid management.

Existing data indicate that the majority of community college students eligible for BEOG's do not in fact apply either because they are unaware or unwilling. Cutbacks in community college financial aid offices have been reported as a consequence of Proposition 13-induced reductions. This also has major implications for financial aid management.

*Fees*

The Education Code permits community colleges to charge students more than twenty different fees for various kinds of services, ranging from field trips to changes in program. A significant new fee (or tuition) for 1978-79 was the charge for certain noncredit courses. Also, there was a significant increase in community service class fees. The prior year's average of $10 per class has increased to an average of nearly $15 per class last year and revenues from this source increased by more than 50 percent.

All fees are permissive. Districts do not have to charge a fee and may support a particular service from general revenue if they prefer. However, specific fee revenue should not be used to support services other than those for which the fee is levied.

Fees represent a cost to students just as tuition would. It is important, therefore, that the ability of individual students to pay these fees be determined. This is particularly important for part-time students who do not have access to compensating financial aids.

The aging were affected dramatically by 1978-79 fee charges along with program cuts. Many courses, attended primarily by seniors, were shifted from instruction to community services where a fee was levied - followed, in some cases, by cancellation of the course. Enrollment of those greater than sixty years-of-age declined by 41 percent and those in their fifties by 24 percent, both losses significantly greater than that (12 percent) which occurred among the general student population. Consequently, it is suggested that courses designed for or primarily attended by seniors be included among those courses eligible for full public support without fee charge.

## COMMUNITY SERVICES

The post-Proposition 13 "bail-out" legislation appropriated funds for 1978-79 equivalent to 92 percent of those local tax revenues appropriated for community services. In spite of this, community service budgets and activities appear to have been cut by approximately one-half.

A survey of 75 colleges indicated the overall reduction in community service activities, other than courses, was about 55 percent. Greatest cutbacks were made in art, music and dance programs, which were reduced from 60 percent to 70 percent of their 1977-78 level.

Traditional community service courses and lectures were reduced by about one-fourth. At the same time, due to the loss of state support, nearly 500 noncredit courses were shifted from instruction to community service. The ned increase in community service courses statewide is about 400 sections (20 percent). This occurred in spite of the fact that nearly 700 sections were eliminated because of Proposition 13 budget restrictions and another 500 sections were dropped because of low enrollment attributable to levied student fees.

Prior to Proposition 13, California policy on community colleges resulted in the following distribution of $38 million in community service income during 1977-78:

| | |
|---|---|
| fees and admissions | 7.8% |
| rentals, permit fees | 1.3 |
| tax revenues | 88.7 |
| public grants | 0.7 |
| other | 1.5 |

All states devoted tax revenue for support of community services. Nationwide, greatest reliance is placed upon fees, with state tax funds ranking second. Western colleges, weighted significantly for the former 5 cent local levy in California, recorded greater use of local tax funds, followed by state tax funds.

# VI

# ACCOUNTABILITY

**BOARD PROPOSAL**

- *Institute a planning and evaluation process that will*

  - *recognize that local boards are accountable to their local communities as well as to agencies designated by the Legislature and must demonstrate how they meet their community needs and respond to state educational interests;*

  - *provide a reporting technique which permits local districts to anticipate rather than react to emerging educational needs;*

  - *tie budget planning more effectively to staff hiring and layoffs through statutory funding and a planning/accountability process;*

  - *provide a vehicle for state-level budget decisions on the allocation of resources among higher education segments.*

- *Incorporate statewide educational interests into district plans through the adoption by the Board of Governors of measurable statewide objectives prior to district plan development.*

- *Require each district to submit a plan with annual updates each fall in order to be eligible for state funding. State-level plan review during the fall is accomplished by a Chancellor's Office staff/field review team. Review incorporates components of the plan which relate to state-level objectives (eliminating specific course review and limiting specific program review to high cost and/or limited need curricula).*

- *Require each district to describe in the plan all program changes. Those program changes requiring increased funding in a district's base budget will be proposed for inclusion in the Governor's Budget (and, therefore, undergo the budget review process) whereas funding for inflation and workload changes in base budgets will be specified by formula in statute.*

- *Include in plans the following content:*

  - *prioritized district and college objectives, including reconciliation with state objectives,*
  - *strategies and budgets for attainment of each objective,*
  - *evaluation criteria for each objective,*
  - *evaluation of achievement of prior years' objectives, and*
  - *evidence of participation in planning by college representatives and district constituents.*

- *Reconcile district/state differences through a positive consultative process, involving both the review team and district personnel. Reconciliation concerns the plan content as it relates to state objectives and the review of past year's practices relative to past year's plan.*

  *The consultative process would involve the following steps:*

  - *notify district of problem,*
  - *reconcile differences by relating state and local objectives or by altering the district's plans and practices,*
  - *determine appropriate corrective actions through combined state and local efforts,*
  - *review efforts and results of corrective measures at set points, and*
  - *consult with local board of trustees about problem.*

  *Where differences are not reconciled or corrective measures are unsuccessful, districts will not be eligible for increased funding for program changes through the budget process.*

- *Minimize the impact of the accountability process on state and local resources by:*

    - *making maximum use of existing data and, where possible, eliminating current reporting requirements,*
    - *using staff time available under the Flexible Calendar recommendation to balance the increased workload necessary to prepare the accountability/planning document,*
    - *using a combined Chancellor's Office/field staff review team,*
    - *providing assistance to districts in their planning through workshops and the development of planning tools, and*
    - *coordinating the proposed planning process with the voluntary accreditation process in order to avoid imposing a duplicate burden on districts.*

- *Change relevant Education Code provisions with implementation of the accountability process:*

    - *incorporate <u>essential</u> Education Code provisions (such as those related to master planning) into the accountability process;*
    - *provide, in the accountability process, for certification of compliance and potential audit by the Chancellor's Office with regards to <u>important</u> Education Code provisions (such as credentialled staff provisions, California residence, admissions);*
    - *eliminate <u>unnecessary</u> Education Code provisions (such as specific course approval, separate approval of summer sessions).*

The recommended planning and accountability process would combine existing local efforts into a state accountability system by making maximum use of existing data sources. The process meets existing state concerns for accountability, while maintaining local decisionmaking and thereby avoiding the need for alternatives such as budget review. Finally, the process changes current reporting requirements to a framework that provides a useful planning document to local districts and satisfies compliance requirements as a secondary effect.

## PROPOSED PROCESS

The process begins with adoption by the Board of Governors of clearly delineated statewide objectives in December.

Districts begin plan development in January by reviewing master plan questions, state objectives, existing data, current local objectives, and current local operations. This is performed by college representatives and local constituents such as students, faculty, administrators, trustees and community advisory boards. Districts then develop a list of objectives to address specific problems facing the district, efforts which the district plans to maintain, and state objectives. Districts need not address all master plan questions. The questions are a framework for isolating relevant district objectives. However, districts are responsible for the entire list and are "auditable" in terms of demonstrating why certain areas were not included in the plan.

Districts refine objectives in the spring by developing a priority order and determining the strategy, budget, and evaluation criteria for each objective. New legislative priorities may be added in June. Finally, an evaluation of the previous year's plan needs to be included in the plan. Plans are completed and adopted by the local board of trustees in September after suitable public discussion.

Each district submits a finished plan to the Chancellor's Office in October. Between that time and the following March, each plan will have been reviewed and reconciled, if necessary, under the auspices of a staff/field review team. The reconciliation process specifically addresses differences between district objectives and state objectives, and prior year's practices relative to the prior year's plan. Plan implementation occurs when the reconciliation process is completed.

Based on submitted data and plan documents, the Chancellor's Office prepares a summary report for other state agencies and the Legislature, extracting program changes that require additional funding (to proceed through budget review), reviewing district practices and problems, and determining new state objectives where appropriate.

*Accountability*

The state currently requires extensive, but fragmented, data submittals by each district. Most of these submittals are interrelated, but there is little required analysis of the data elements or the relationship between elements. While educational master plans exist in some districts, there is no assurance that all colleges are planning adequately. The proposal requires all districts to develop their accountability document through a master planning system and, thus provides the state with necessary data and assurance of local planning.

All forms of accountability are important, including those dealing with college resources, activities and outcomes. Adequate planning must address all these concerns. While some form of local accountability exists, there is no systematic accountability process throughout the state. Any process which dilutes local accountability violates one of accountability's intended purposes. The proposal not only maintains but strengthens local accountability by providing the required structure and broad constituent participation.

External agencies need evidence that colleges are concerned with accountability and are planning adequately. This concern by external agencies combined with the absence of a systematic statewide accountability system has resulted in a number of alternative long-term finance proposals by other agencies. The process recommended by staff assures the state that districts are making adequate efforts to accomplish state objectives, while avoiding the unnecessary and disruptive centralization of alternative proposals.

*Local and State Use*

The proposed process not only satisfies accountability concerns, but also addresses two other needs. First, the process changes reporting requirements from acts of compliance to useful local decisionmaking processes. While the state cannot mandate useful local decisionmaking and districts may perceive the proposal solely as an act of compliance, the intent is to provide a framework that is useful to districts and satisfies compliance requirements as a by-product. Second, the process should meet the concerns

of other state agencies. The annual plan will detail all program changes anticipated by the district. These program changes which require increased funding will be amalgamated and proceed through a budget review process. Therefore, the state can identify, review, and control all new funding through the program change component of the accountability process. The proposed process provides a vehicle for identifying common problems and the need for new state objectives.

The process requires districts to undertake a comprehensive planning process oriented to local problems and variations as well as state objectives. Therefore, while the master plan questions appear lengthy, districts will only respond in the areas related to their circumstances. The product is then a working document for local districts.

*Reconciliation*

In cases where district objectives or practices are at variance with statewide objectives, a series of positive steps are taken to correct the problem. Only after these cooperative actions, involving the state and local district, are taken and prove unsuccessful would sanctions be imposed. The first sanction involves public consultation with the district board. If all efforts prove unsuccessful, the district would become ineligible for any program change funding increases. This would have the impact of denying a district funding for a significant new program while, at the same time, existing programs are deficient. Statutory funding for workload and inflation would continue. Consequently, students would not be penalized by a loss of existing district funds. It is expected that most district plans will be consistent with statewide objectives and that the reconciliation process would be necessary in a limited number of cases -- a "management by exception" process.

*Basic Objectives*

The process proposed seeks to provide the requisite accountability without resorting to heavy use of categorical funding or state-level budget review of district budgets. While districts require budget flexibility to be effective, a return to pre-Proposition 13 methods is neither feasible nor desirable. Accountability should be shared between state and local authorities.

The proposed process relies on relatively stable statutory funding of district workload and inflation together with budget review of added funding needed for district program changes. These funding changes, together with the planned activities and performance of colleges generally, can be reviewed during budget act development in the context of public higher eudcation, education generally, or the entire California public sector.

District boards need budget flexibility if they are to continue to be community-oriented, become more cost-effective (as they must with scarce funding), and set priorities effectively. This includes flexibility to allocate funds among competing local uses and to plan and manage college operations. This can be accomplished in part by removing many existing legal constraints on the use of college resources together with a major change in college accountability from emphasis on short-term efforts to emphasis on long-term planning and results.

## ALTERNATIVES

A number of alternative long-term fiscal support techniques for community colleges have been proposed. These alternatives range all the way from line item budget review of seventy district budgets at the state level to relatively inflexible statutory formulas of the sort that existed prior to Proposition 13.

The major differences among alternative proposals concern whether fiscal policy is contained in statute or in the annual budget act, the character of funding formulas, the level of district budget detail examined at the state level, and in general, the means by which districts are accountable to state and local taxpayers.

### *Budget Act Negotiation*

Negotiating seventy community college district budgets at the state level in a fashion like CSUC, for example, would be costly, preclude local flexibility, and narrow policy considerations to just those that relate to highly detailed fiscal proposals. No other large states use negotiated budgets. Virginia, with twenty-three college budgets and less than 150,000 students, is the largest state to use a negotiated budget technique and even they must resort to a number of standard formulas.

### *Standard Budget Act Formulas*

Another alternative involves the review and determination, during the annual budget process, of certain standard formulas for community college funding. Use of standard formulas such as statewide salary schedules (and, presumably, statewide collective bargaining), student: faculty: administrator ratios, and minimum class size restrictions does not provide the flexibility needed by local boards if they are to set priorities based upon the unique and differing educational needs in their communities. Such formulas are much too uniform and arbitrary to accommodate the multitude of situations and communities represented in 70 districts, 106 colleges, and nearly 3,000 outreach centers throughout California.

*Fixed Budget Act Appropriation*

A fixed, aggregate appropriation set at the state level for allocation among districts is inequitable and sets a major policy precedent. If one or several districts require increased funding during the course of a fiscal year, other districts lose funds. The budget of one district should be a function of its own needs, not a function also of the needs of 69 other districts whose circumstances may be totally unrelated.

More important, the aggregate budget or fixed appropriation may lead to the need for statewide control of community college enrollments and, therefore, a departure from the existing policy of open admissions. State control of college enrollments would deny access and negate a fundamental philosophy of California Community Colleges: that of equal educational opportunity.

*Timing*

Use of the budget act to determine all community college expenditures is too uncertain and occurs too late for districts to effectively bargain, meet certain other requirements such as staff layoff notices, and to plan budgets generally. Adoption of the budget act, typically in June of each year, occurs three months after March 15th when districts must notify full-time certificated faculty they are not to be rehired for the budget year. The layoff notification date is appropriate. Therefore, the solution is to provide districts with a relatively certain picture of their budget year revenues prior to the notification date. Use of the budget act prevents this.

*Scope of Review*

Determining community college district needs for workload changes and inflation, by statutory formulas, provides a broader policy review of major fiscal changes than does the annual budget process. The limited context of just public higher education in some budget subcommittees seems too narrow to encompass the variety of concerns of other agencies and institutions that relate to community college education.

*Uniqueness*

The fiscal process should recognize differences in governance and mission between community colleges and the University of California (UC) and California State University and Colleges (CSUC), on the one hand, and public elementary and secondary schools (K-12) on the other hand. In this regard, comprehensive community colleges are a unique postsecondary educational

institution encompassing more than just lower division transfer instruction, the area of overlap with UC and CSUC. Community colleges also offer occupational, developmental, general, and community education. Community colleges are managed by locally-elected boards in a fashion similar to K-12. This is not the case for either UC or CSUC, all of whose campuses are responsible to a central statewide board.

# VII
# RESOURCES

## BOARD PROPOSALS

*Operating Budget*

- *Maintain existing local salary-setting procedures and local collective bargaining opportunities.*

- *Support legislation that allows districts to take into account the impact on affirmative action programs as well as seniority when making staff reductions or reassignments.*

- *Eliminate restrictions on calendar and course scheduling by implementing, at district discretion, the successful features of the "flexible calendar pilot:"*

    - *retain 175-day academic year, but with 160-day instructional year minimum (ensure that no monetary gain or loss results from this policy change),*

    - *base student census on course length, rather than term length,*

    - *provide for variable length terms within the academic calendar rather than the equivalent length terms as at present, and*

    - *encourage year-round operation, including summer session.*

- *Support the proposed accountability process and expand development of staff, curriculum, and instructional techniques in part by implementing the change of instructional year minimum from 175 to 160 days.*

- *Review and modify restrictions on individualized instruction, consistent with new support techniques.*

- *Encourage use by districts of:*

  - *small outreach centers to deliver education,*
  - *existing community resources,*
  - *instructional techniques such as television, computers, and other media, where such techniques maintain or enhance the quality of traditional classroom lecture and laboratory instruction.*

*Capital Outlay*

- *Provide districts with the maximum flexibility feasible for planning and managing their facilities, consistent with statewide interests.*
- *Encourage effective utilization of existing college and community facilities.*
- *Continue existing techniques for determining space utilization of facilities both on campus and off campus (under college control).*
- *Review and modify, if necessary, utilization standards, particularly for laboratory and lecture/laboratory uses and for district size.*
- *Provide districts with greater flexibility for lease and lease/purchase arrangements.*
- *Increase state assistance to districts in planning and managing their facilities.*

*Interdistrict Attendance*

- *Liberalize current policies, beginning 1981-82, for a three-year period:*

  - *permit students to attend the college and district of their choice, subject to available facilities and affording admissions priority to district residents,*
  - *adjust district base budgets or mandate transfer of local funding involved in enrollment shifts,*
  - *allow district to restrict outward flow of residents on either a district or college basis after their number exceeds 10 percent of prior year enrollment.*

## GENERAL OBJECTIVES

Among the Board of Governors' goals are those calling for:

- effective use of human and physical resources
- fostering of staff excellence
- preservation of academic freedom
- extensive use of community resources
- policies that encourage innovative and creative developments

Crucial to achieving these goals is strong local decisionmaking fostered by minimizing the state-level constraints on the ways colleges plan, manage, and schedule their resources. This section of the Plan deals with human resources along with discussion of optimum college size and physical resources.

Decisions on staff hiring and compensation along with selection of methods for delivering instruction and support services should continue to be made locally. The Finance Plan modifies existing policies, where necessary, in order to allow districts to achieve more effective development, utilization, and maintenance of existing and future community college resources.

## STAFFING CONSTRAINTS

Effective allocation of scarce funds for staff can be enhanced by removal or modification of many existing constraints in the Education Code. Such constraints frequently deal with staff utilization and compensation. Matters of this kind are appropriately determined by local collective bargaining. Once the bargaining process is fully implemented in community colleges, arbitrary statewide legal constraints can be considered for removal or modification.

An example of such constraints is the "fifty percent law" which requires that at least half of the current college cost of education be devoted to the salaries of instructors. The original intent of this law was to ensure that an adequate proportion of college resources be allocated to instruction. There are indications that the law may constrain instructional innovation by excluding certain student service and library personnel. Requirements of this law are becoming increasingly difficult to meet since it fails to recognize fixed costs. This exemption process is cumbersome and existing sanctions do not appear effective in correcting violations.

Since collective bargaining is not in place in many districts, the appropriate policy consideration is a modification to the fifty percent law, possibly to add certain student personnel service and library staff. This option should be reviewed in light of possible consequences resulting from implementation of the Board's long-term finance proposal.

## BUDGET TIMING

Full-time certificated staff must be first notified by March 15th with a final decision on May 15th if they are not to be rehired for the following academic year. Nearly all districts faced difficulties with the layoff deadlines last spring since funding levels for 1979-80 were not known until June. Even with normal funding in the future, some districts will decline in enrollment and face layoff decisions.

The March and May deadlines appear to be appropriate. Therefore, the support technique incorporated in the long-term Plan proposes a statutory funding formula in which a district's funding for inflation, the bulk of its budget change, is known for the most part by that March preceeding the fiscal year for which budget planning is well underway.

## PART-TIME FACULTY

It is estimated that community college part-time faculty exceeded full-time faculty by a ratio of about two to one prior to Proposition 13. Due to budget cutbacks, nearly 7,000 (or one-fourth) of the part-time faculty were not rehired this past fall. Even so, there are still about 23,000 part-time and 15,000 full-time faculty teaching in California Community Colleges.

The status of part-time faculty is unclear. Appropriate sections of the Education Code are subject to varied interpretations and several recent court rulings have added to the confusion. There are differing opinions about the proportional compensation which part-time faculty should receive compared to that received by full-time faculty. While collective bargaining may resolve this problem at the local level, there is still discussion of state-mandated prorata pay. Another issue concerns the practice of having some full-time faculty also teach part-time on an overload basis.

The salary and tenure status of part-time faculty was addressed by the California Supreme Court in Peralta Federation of Teachers vs. Peralta Community College District on May 25, 1979. That decision held that those part-time instructors hired after November 8, 1967, do acquire permanent

status and are entitled to some retroactive prorata pay. The number of part-time faculty statewide that could be entitled to retroactive pay and permanent status as a result of the Peralta decision is indeterminate. It appears that only a very small portion of all part-time instructors would be directly affected.

Present Board of Governors' policy advocates equal pay for equal work and a limit on the amount of instruction that any district offers using part-time faculty. The Board's Plan does not include a specific proposal on part-time faculty. The Board may consider reexamination of its policy in light of the Peralta court decision and study the matter more completely when details of long-term finance legislation are settled.

STRS

Still another potential future cost has to do with funding necessary to make State Teachers' Retirement System (STRS) actuarily sound. There are indications that the STRS is underfunded, partly due to contribution rates and also due to the number of retirements that will occur during the next two decades as a result of the rapid growth during the 1950's and 1960's.

Funding for the "state-funded" portion of community college STRS is derived from a formula which produced approximately $7.5 million last year. Prior to Proposition 13, the local contribution was derived from a permissive property tax of up to 5 cents per $100 of assessed valuation, based upon the amount needed to raise 8 percent of STRS members' salaries. This amount was brought forward, like other components of local revenues, at the rate of approximately 92 percent of 1977-78 funding, or about $32.5 million statewide.

The total unfunded liability of STRS was estimated to be $9.2 billion as of June 30, 1978. At current funding, the liability is growing at the rate of nearly $1 billion per year. In order to stem this growth in the liability, a combination of state and local funds totalling just over 21 percent of annual salaries would be required. The current contribution rate is less than 17 percent. The Legislature has called for a report detailing the appropriate responsibility of the state, districts, and employees for the liability. That report will be forthcoming later this year.

This funding problem affects elementary and secondary school teachers as well as community college teachers. Consequently, a comprehensive solution to the system's funding problems is being developed by the Legislature apart from other long-term finance proposals. The Board has not yet acted on a specific policy proposal.

## AFFIRMATIVE ACTION

In 1977, the Board of Governors adopted regulations requiring districts to adopt affirmative action policies and plans. One year later, the Board supported legislation which effectively codified the Board's earlier regulations. Following Proposition 13, the Board expressed concern about impending district staff layoffs and the possible impact on recent gains in affirmative action hiring of college staff.

Sixty-six of 67 districts responding to a "Proposition 13 Impact Survey" report said they implemented an affirmative action plan prior to June 6, 1978. Only 3 of these 66 indicated they did not maintain affirmative action efforts after June 6, 1978. Thirty-one responding districts indicate that Proposition 13 had no visible impact on their affirmative action program. The remaining 36 districts describe various impacts. Sixteen districts noted a freeze on hiring and board decisions to restrict or limit creation of new positions, causing an overall reduction in staff turnover and preventing new hirings and opportunities for improving the district ethnic and sex balance. Seven districts reported that Proposition 13 resulted in some budget and position cuts in the affirmative action programs. Other districts note that the greatest impact occurred among classified staff and part-time instructors since few layoffs occurred within the ranks of certificated and full-time people.

In 1978-79, due to Proposition 13, community college staff were reduced by nearly 10,000 from the 72,000 employed prior to June 1978. Nearly 7,000 of these layoffs were among part-time faculty. Another 1,000 each occurred in the full-time and part-time classified categories. Efforts are continuing to determine the racial, ethnic, and sex distribution of those staff who were not rehired.

## STAFF DEVELOPMENT

Moderate increases or decreases in enrollment mean moderate additions or decreases in staff. This, together with expansions of new techniques, learning systems and subject areas, will result in the need to devote relatively more college resources to staff development and retraining in the future.

Efforts are underway to develop an institute that would provide comprehensive, systematic, inservice education and retraining of community college faculty. A proposal for this institute will be considered by the Board later this year. Needed staff development also can be met in part by the more flexible college calendar now undergoing pilot test. This calendar provides time for concentrated efforts at staff development, affirmative action, and other staff-related activities that may be reduced due to inadequate funding.

## CALENDAR AND COURSE SCHEDULING

Flexible scheduling serves several purposes. Student mobility between college and secondary and postsecondary education institutions and the labor market is facilitated. Programs may be designed on the basis of student need and subject content. There is increased opportunity to smooth peak times of student course demand. More time can be made available for such instructional-related activities as counseling and guidance, staff development, affirmative action, curriculum development, and general college planning and evaluation.

California Community Colleges are the last group of postsecondary institutions in the nation to rely primarily upon a traditional calendar where the fall semester extends beyond Christmas and classroom instruction takes place over 35, rather than the usual 32, weeks. Efforts at flexible scheduling are made impossible by existing legal constraints. Colleges cannot undertake nontraditional scheduling with assurance of sufficient resources until outmoded Education Code provisions for (a) length and arrangement of calendar and (b) continuing student workload are revised.

Special legislation has allowed several pilot districts to operate different calendars for the past three years and has allowed Cabrillo College to operate a different calendar for the past eight years.

Evaluation of the pilot projects and Cabrillo's experience supports the proposed statewide expansion. Participating students and faculty are overwhelmingly in favor of the different calendars adopted by the districts. Reducing the calendar for instruction from 175 days to 160 days does not interfere with course content or with the quality of instruction. Student achievement in pilot colleges compares favorably to past performance and to that of students in similar colleges. Staff are completing a detailed report on the first three years of the pilot project.

Successful components of the experience include (a) maintaining the 175-day academic year, but reducing the minimum number of days for instruction and examination to 160 and thereby allowing time for valuable developmental activities, (b) relating student census times to length of course rather than to length of term, and (c) encouraging productive variation in calendars and course scheduling. These recommendations would be permissive; that is, districts would be free to choose those calendars that best suited their situations.

## INDIVIDUALIZED INSTRUCTION

Finance policies should encourage districts, where appropriate, to supplement the traditional classroom lecture-laboratory instructional mode with greater use of individualized instruction and technologies such as television, radio, computers, newspapers and other media where such methods can be shown to lower costs while maintaining or enhancing the quality of instruction.

The Long-Term Plan recommends new support techniques for individualized instruction. In some cases, such as self-paced mastery learning, more than the usual contact between students and faculty may be required for each unit of credit. In other cases, such as television, computerized instruction, or independent instructional packages, there is less than the traditional amount of contact per credit. While recent legislation did remove the need for an instructor to be immediately present, other stipulations and regulations pose constraints on the use and expansion of individualized instructional efforts. Further work is needed to identify those remaining constraints that may be removed consistent with other accountability measures proposed in the Long-Term Plan.

## COLLEGE SIZE

Community colleges should be at least of a minimum size sufficient to provide adequate quality and diversity in their programs and services at a reasonable cost. However, at some point in a college's growth, further diversity is unnecessary, further growth may detract from quality, and size (and possibly location) restricts the college's accessibility.

Costs per student decline as a college grows (economies of scale). At some point, due to the course sectioning and staff and facility duplication, costs per student stabilize and may even increase once the college grows beyond a certain enrollment (diseconomies of scale).

There is probably an "optimum range" of enrollments within which community colleges should operate, noting special local circumstances and giving full consideration to all feasible ways of providing educational services. Small colleges are needed to afford access to special populations such as the geographically isolated. Extra financial support is required if these colleges are to offer quality programs that are sufficiently diverse as to meet the needs of their students. An upper limit to college size is difficult to determine. It is doubtful, however, that as a general rule community colleges should be planned to exceed 15,000 to 20,000 headcount enrollment. Where circumstances require larger institutions, steps need to be taken to organize, finance, and design instruction and supporting services so that quality does not decline and student access is not impeded.

In general, California Community Colleges may be too large. As a result of growth and policy, they now average 10,000 enrollment per college, twice the size of the typical community college elsewhere in the nation. This past fall, one-fourth of California's Community Colleges exceeded 15,000 headcount enrollment; twelve were over 20,000.

Long-term finance policies should encourage the use, by districts, of generally smaller units, such as outreach centers, located so as to enhance student access. Program cutbacks resulting from the first-year impact of Proposition 13 have curtailed the expansion of such centers. Use of existing community facilities reduces costs and should also lead to greater cooperation with business, industry and community agencies of all kinds.

## FACILITIES UTILIZATION

The existing technique for measuring classroom and laboratory space utilization is based on three components:

- scheduled room use
- occupancy of student stations
- space per student station.

Future space needs for the different kinds of facilities are computed using a formula which divides the assignable square feet (ASF) per station by the product of the room use standard and the station occupancy standard. Using the result, in terms of ASF per 100 weekly student contact hours (WSCH), planners convert expected WSCH to a total ASF capacity needed on campus or in district. Different disciplines require different amounts of space. For example, automotive instruction requires about four times the space per student required for humanities or biological science.

By deducting available capacity from needed capacity, planners determine the amount and kind of space for which additional facilities need to be constructed or otherwise secured. The planning objective is to keep available space as close to need (as close to "100 percent of capacity") as possible. This analysis had always been performed on a district-wide basis until legislation provided for separate analyses on a campus or center-wide basis within multi-college districts, beginning in 1978.

Existing techniques for determining present and future space utilization should be continued. To encourage effective use of available facilities, all off-campus space under the control of the district should be included in the inventory and utilization standards. Standards should be reviewed in an effort to identify needed corrections, especially for certain laboratory spaces and changes in the methods of instructional delivery subsequent to the implementation of the existing standards. Corrections should include better reporting of utilization data and revised laboratory utilization standards.

Utilization standards presently do not include use of off-campus facilities not under the control of the district. The review of existing standards should make some provision for inclusion of these types of space for purposes of assessing utilization.

## INTERDISTRICT ATTENDANCE

Districts must enroll their own residents but need not enroll those individuals residing in other districts. Interdistrict attendance of community college students is governed by a complex of agreements and individual permits and is only "guaranteed" if students cannot obtain desired programs in their resident districts.

Students enrolled on an interdistrict basis are more often white and male, take relatively lighter academic loads, and are typically older than the resident student population. There is extreme variation in the relative numbers of interdistrict students enrolled in specific districts. Most such attendance is concentrated in urban or suburban areas where commuting between districts is possible. (Students can establish their own residency and avoid the need for an interdistrict permit, if they actually move.)

The numbers of such interdistrict students were relatively constant at the beginning of this decade. After a one-year decline in 1972, the number of such students has doubled and now comprises nearly 8 percent of total enrollment statewide or over 40,000 ADA.

Each year, there are reported instances where students are unable to attend the college of their choice because it is in another district and they are not able to obtain a permit. The overall impact of this policy upon student access is uncertain, however. Four of every five requests for individual interdistrict attendance permits are granted. There appear to be less than 4,000 permit denials throughout the state each year. Only in a few counties are permit denials appealed, as provided by law, to the County Board of Education, where the success rate is 80 percent.

Free-flow of students between districts would enhance access. It also, however, would cause significant enrollment shifts among certain districts which, in turn, could result in (a) temporary under- or over-utilization of staff and facilities, (b) racial and ethnic imbalances, (c) a significant loss of students in certain small districts, (d) counter-productive competition, (e) discrepancies between trustee areas and the actual areas of student enrollment, and (f) for some colleges, a change in the "community" served.

If alternative policies for interdistrict attendance are preferred over the status quo, two factors need consideration:

- changes in interdistrict admissions requirements should not be implemented prior to one or two years after the introduction of new long-term finance policies, and

- interdistrict admissions policies should be implemented by local districts, not by state authorities.

The Board proposal should improve access and, at the same time, avoid most of the problems expected to result from free flow. District base revenues should be adjusted for the net tuition transfer (excluding that for capital outlay purposes) recorded by the district during the base year prior to implementation of the policy. Tuition transfers are the local dollars that are now paid voluntarily from sending districts to receiving districts for interdistrict enrollment. Changes in attendance following implementation of the policy would be funded at the standard marginal support rate. The prior year enrollment base for a district should include all district residents whether enrolled within the district or in another district.

## APPENDIX A

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FINANCE TASK FORCE

Frances Compton
Member, Board of Trustees
Marin Community College District

Michele Curran
Student
Los Medanos College

Richard Cutting
Program Manager
State Department of Finance

Elva Garcia
Student
Gavilan College

Hal Geiogue
Principal Program Analyst
Legislative Budget Committee

Yates Greer
Instructor
College of the Siskiyous

Ralph Guiterrez
Member, Board of Trustees
Rio Hondo Community College District

Bill Hamre
Former Staff Member
Chancellor's Office

Jerry Hayward
Chief Consultant
Senate Finance Committee

Roy Holland
Citizen
Alhambra

Jun Iwamoto
Business Manager
San Francisco Community College District

Paul Kirkpatrick
Member, Board of Trustees
Victor Valley Community College District

Chuck McIntyre
Chancellor's Office Staff

Pat Manning
Instructor
Canada College

Jim Murdoch
Staff Director
Assembly Committee on Education

Anita Pace
Student
Cabrillo College

William H. Pickens
Higher Education Specialist
Postsecondary Education Commission

William P. Smith, Jr.
General Counsel
Public Employment Relations Board

Tom Stevens, Jr.
President
Los Angeles Trade-Technical College

Robert Swenson
Executive Director
Accrediting Commission for Community and Junior Colleges

Jim Thorpe
Instructor
Saddleback Community College

Dale Tillery
Professor, School of Education
University of California, Berkeley

Tom Van Groningen
Superintendent
Yosemite Community College District

Harvey Williams
Citizen
Irvine

STUDY GROUP ON CAPITAL OUTLAY PLANNING

Elton Ward, Vice Chancellor
Physical Plant and Facilities
North Orange Co. Community College District

Bennett A. Long
Vice President, Business Services
Long Beach City College

Kenneth S. Wheeler
Vice Chancellor, Business
State Center Community College District

James C. Young, Chancellor
Kern Community College District

Roy Wieghorst, Director
Plant and Equipment Services
San Diego Community College District

Chancellor's Office Staff
Ed Rodgers
Joe Freitas
Tom Tanner
Chuck McIntyre

STUDY GROUP ON MISSION AND FUNCTION

Suzanne Adams, Director
Instructional Planning
Peralta Community College District

Lois Callahan
Dean of Instruction
College of San Mateo

Frances Compton
Member, Board of Trustees
Marin Community College District

Michele Curran
Student
Los Medanos College

Ronn Farland
Chancellor's Office Staff

Ralph Guiterrez
Member, Board of Trustees
Rio Hondo Community College District

Dennis Mayer
Vice President, Student Services
Mt. San Antonio College

John McFarland
Instructor
Sierra College

John Meyer
Chancellor's Office Staff

STUDY GROUP ON FINANCE

David Agosto
Chancellor's Office Staff

Don Fitzgerald
Instructor
Long Beach City College

Joe Freitas
Chancellor's Office Staff

Marc Irish
Former Chancellor's Office Staff

Ed Keith
Instructor
Citrus College

Roger Merle
Chancellor's Office Staff

Virginia Mulrooney
American Federation of Teachers

Tom Stevens, President
Los Angeles Trade-Technical College

Sam Wheeler
Vice Chancellor, Business
State Center Community College District

Gordon Woolley
Business Manager
Riverside Community College District

STUDY GROUP ON GOVERNANCE

Juana Barbarita
Chancellor's Office Staff

William Boakes
Chancellor's Office Staff

Gary Gallery
Former Chancellor's Office Staff

Yates Greer
Instructor
College of the Siskiyous

Jim Hardesty
Instructor
Los Angeles Pierce College

William Lawson
Assistant to Superintendent, Instruction/Planning
Ventura Co. Community College District

Robert Lombardi
Superintendent
Saddleback Community College District

Frank Martinez
Superintendent/President
Cuesta College

Archie McPherran
Chancellor's Office Staff

Robert Prescott
Member, Board of Trustees
Mira Costa Community College District

Taron Reeves
Chancellor's Office Staff

John Shermerhorn
Instructor
San Diego Mesa College

STUDY GROUP ON MANAGEMENT

Norbert Bischoff
Instructor
Merritt College

Gerry Cresci
Chancellor's Office Staff

Tyra Duncan-Hall
Instructor
City College of San Francisco

Mike Caron
Former Chancellor's Office Staff

Ed Rodgers
Chancellor's Office Staff

Don Sorsabal
Assistant Superintendent, Business Services
Santa Barbara Community College District

Gerhardt Steinke
Chancellor's Office Staff

Robert Swenson
Executive Director
Accrediting Commission for Community and Junior Colleges

Royal Tyson
Former Chancellor's Office Staff

Elton Ward
Assistant Chancellor, Physical Plant and Fac. Educational Services
North Orange Co. Community College District

STUDY GROUP ON PLANNING AND ACCOUNTABILITY

Norbert Bischoff
Instructor
Merritt College

Tyra Duncan-Hall
Instructor
City College of San Francisco

Rudy Melone
Superintendent/President
Gavilan College

Jerry Sharp
Planner
West Valley College

Robert Swenson
Executive Director
Accrediting Commission for Community and Junior Colleges

Dale Tillery
Professor, School of Education
University of California, Berkeley

Bud Warren
Educational Testing Service
Berkeley

Darroch "Rocky" Young
Coordinator, Instructional Services
Santa Monica College

CHANCELLOR'S OFFICE ORGANIZATIONS GROUP

Margaret Amoureux
Chairman, Legislative Committee
WRCBAA
Merritt College

Gerald C. Angove
Association of Community College Administrators
Sierra Joint Community College District

Francisco M. Arce
LaRaza Faculty Association of the California Community Colleges
American River College

Leon Baradat, Past President
Academic Senate of California Community Colleges
Mira Costa College

Richard Bartlett, Exec. Director
California School Employees Assn.

Ernest H. Berg, Assoc. Director
California Community & Junior College Association

Mary Bergan
Legislative Director
California Federation of Teachers

Rose Marie Beuttler
Past President
Community College Association, CTA
College of San Mateo

James Browne, Consultant
Senate Committee on Education

John J. Bukey
Legislative Advocate
Association of California Community College Administrators

Jerry Crandall, President
Faculty Association of California Community Colleges

Kit Cullen
California Community and Junior College Association

Rosalyn Elms, Consultant
Assembly Subcommittee on Postsecondary Education

Joyce Fadem
State Consultant, Higher Education
California Teachers Association

Peter Ferris
California Association of Part-Time Instructors

Phil Givant
Academic Senate
American River College

Jenette Golds, President
Community College Council, CFT
Laney College

Ismael Gonzales, President
LaRaza Faculty Association of the California Community Colleges
Foothill College

Daniel B. Grady, President
California Community College Trustees
San Diego Community College District

H. James Harper
Executive for Legislative Services
California Community College Trustees

William D. Hayward, Editor
THE CALIFORNIA PROFESSOR
California Teachers Association

Pat Hewitt
Legislative Liaison
Los Angeles Community College District

William S. Jones, President
California Community & Junior College Association

John McFarland
Sierra College

Lloyd E. Messersmith
Executive Director
California Community & Junior College Association

Paul Meyer
Executive Director
Faculty Association of the California Community Colleges

Doug Moore
Community College Student Government Association
Federal Affairs Council

James Murdoch, Consultant
Assembly Committee on Education

Ronald Myron
Executive Director
California Community College Trustees

Dr. Frank Pearce, President
Association of California Community College Administrators
Long Beach City College

Garland Peed, President
Community College Urban District Association
San Diego Community College District

William D. Plosser
Private Consultant

Charles Ridgell, President
California Community College Student Government Association

Richard Ritts, Legislative Advocate
California School Employees Association

Dr. John Rivers, President
Council on Black American Affairs
Monterey Peninsula College

Cal Rossi
Deputy Executive Director
Higher Education Department
California Teachers Association

John Shermerhorn, President
Community College Association, CTA
San Diego Mesa College

Leslie Spates
Private Consultant

Phil Stokes
Foothill College

Margaret Turner
Associated Students
Cabrillo College

ASSOCIATION OF CALIFORNIA COMMUNITY COLLEGE ADMINISTRATORS FINANCE COMMITTEE

Raymond F. Ellerman, Chancellor
San Bernardino Community College District

Joseph Newmyer
Vice Chancellor, Finance and Facilities
North Orange Co. Community College District

Dale Parnell
Superintendent/President
San Joaquin Delta College

William J. Provance
Assistant Vice Chancellor - Business Services
Los Angeles Community College District

Donald M. Spellman
Dean, Administrative Services
Gavilan Jt. Community College District

Harold L. Throop, Jr.
Vice President, Business
El Camino Community College District

Tom Van Groningen, Chairman
Superintendent
Yosemite Community College District

D. Donald Weichert
Superintendent/President
College of the Redwoods

Kenneth S. Wheeler
Vice Chancellor, Business
State Center Community College District

COMMUNITY COLLEGE FINANCE SEMINAR PARTICIPANTS

John Augenblick
Education Finance Economist
Education Commission of the States
Denver, CO

Dave Brennaman
Brookings Institution
Washington, DC

Arthur M. Cohen, Director
Clearinghouse for Junior Colleges
University of California, Los Angeles

Patricia Cross
Distinguished Research Psychologist
Educational Testing Service
Berkeley, CA

Walter I. Garms
School of Education
University of Rochester

Edmund J. Gleazer, President
American Association of Community/Junior Colleges
Washington, DC

Lee G. Henderson, Director
Division of Community Colleges
Florida State Department of Education

Helana B. Howe
Director Designate
Community College Unit
Office of Education
Washington, DC

Martin Karmer
Carnegie Commission on Policy Studies
Carnegie Corporation of New York

John Lombardi, Staff Writer
Clearinghouse for Junior Colleges
University of California, Los Angeles

S. V. Martorana
Professor of Higher Education and Research Associate
Center for Study of Higher Education
Pennsylvania State University

Cornelius V. Robbins
Associate Chancellor for Community Colleges
State University of New York

Ellen Tenenbaum, Associate
Education Finance Unit
National Institution of Education
Washington, DC

John N. Terry, Deputy Director
Administrative Services
State Board for Community College Education
Tallahassee, FL

Dale Tillery
Professor of Higher Education
Department of Education
University of California, Berkeley

James L. Wattenbarger, Director
Institute of Higher Education
college of Education
University of Florida

Fred L. Wellman
Executive Director
Illinois Community College Board

ANALYTICAL STUDIES UNIT STAFF

Evelyn Beaver
Kay Crabbe
Jerry Hudson
Chuck McIntyre
Gary Paque
Wendy Payton
Taron Reeves
Buster Sano
Leonard Shymoniak
Evelyn Stacey
Tom Tanner
Debbie Toner
Channing Yong

FORMER STAFF
Michael Caron
William Hamre
Marc Irish

CONSULTANTS

Michael Barrier
Private Consultant

Daryl Carlson
Private Consultant

Michele Curran
Research Assistant

Jackie Ireland
Assistant Dean, Community Services/Instruction
West Los Angeles College

Susan Nelson
Brookings Institution
Washington, DC

## APPENDIX B

## COMMUNITY COLLEGE FINANCE SEMINAR SUMMARY

A two-day seminar on community college finance was conducted by the Chancellor's Office in October 1978. The purpose of this seminar was to bring together recognized experts from across the nation (see list of participants in Appendix A) to discuss the future financing of community colleges both nationally and in California. Views of participants from the academic community as well as others outside California proved to be a valuable component of the finance project.

There was no attempt at the seminar to derive a consensus on any particular issue. However, the group generally agreed on the following principles:

- desirability of strong institutional decisionmaking (sometimes termed local control)
- need to maintain the comprehensive mission of community colleges and their strong community orientation
- beneficial impact of having a variety of revenue sources (rather than one), including local taxes
- need, if tuition is charged, for financial aid for those students unable to pay.

The latter notion suggests the group's support for the "open door" policy, although some seminar participants felt this policy might be adjusted for the amount of prior postsecondary education an individual had already acquired. In any case, it was observed that the "open door" may result as much from the lack of admissions requirements and proximity of community colleges as it did from their low cost.

Several of the group argued for financing techniques that (1) recognize program cost differences and/or (2) provide incentives for community colleges to better manage their efforts and provide services. It was further argued by some that such techniques need not be categorical (i.e., funds to be used only for specific purposes), but, rather, could be incorporated in general aid formulas. There was general agreement on the need to examine closely the year-to-year changes in costs on an incremental or marginal basis. Opinions varied as to whether the credit hour or classroom contact hour is the more useful measure of instructional activity.

## APPENDIX C

## OTHER STATES COMMUNITY COLLEGE FINANCE SURVEY

### SUMMARY OF ALL STATES

Review of data on community college finance in other states suggests several important generalizations. Twenty of the states (mostly those with few community colleges) use negotiated budgets or aggregated cost methods rather than formulas for distributing state monies to community colleges. The remaining 30 states use formula methods for distribution of state funds. Among these states, there are two noticeable distinctions: (1) the use of a single funding rate for instruction (10 states) vs. the use of multiple rates (20 states), and (2) the incorporation of funding for support services into the instructional rates (20 states) vs. the use of separate formulas for the funding of support services (10 states). Those states using multiple instructional rate formulas appear to use some form of cost accounting to determine different rates within the instructional categories.

When the methods of allocation are compared to the size of the system, only two notable relationships exist. Small state systems (5 or less colleges) tend to use allocation methods that do not involve formulas (i.e., these states use negotiated budgets or aggregated cost methods). Large state systems (over 25 colleges) tend to use multiple instructional rate formulas. When the method of allocation is related to sources of funds, no generalization is possible. Formula funding is preferred irrespective of funding sources. A preponderance of state funding, for example, does not necessarily result in a negotiated budget mode.

Multiple instructional rate formulas are the most frequently used allocation techniques. Furthermore, if a trend in financing does exist, it is towards greater use of this allocation technique by other states. Also, more state systems appear to be considering the use of separate formulas for the funding of support services.

There are other important, though less common funding distinctions. Nine states have some provision in their formulas for the size of the college campus. Somewhat surprisingly, only 6 states appear to have some form of minimum foundation (or equalization) program. These 6 states represent less than half of the states (14) who derive more than 25 percent of their funds from local contribution. Another important condition which exists in many states is a total state appropriation limit. Under this condition, rates within a state's formula will vary with the relationship between enrollments and the amount of the state appropriation. In years of large enrollment growth, this results in rates per unit of measurement being significantly reduced in order to stay within the appropriation limit.

In the area of sources of funds for current operations, extensive variation exists. All other states charge "tuition." A relatively large number of states, 24 of the 50 states, have no local contribution. In those states with no local contribution, the state contribution varies from 40 percent to 90 percent as a result of the role played by tuition and other sources of funds. Thus, a "state-funded system" may only have 40 percent of its funds supplied by the state.

The data on sources of funds for capital outlay are a smaller sample (31 states) and are only based on fiscal year 1976. The most notable generalization in this area is that in over 50 percent of the states sampled there is no local contribution.

The tuition and fee data are based on full-time students for 1977-78 academic year. The data indicate that 38 states have an average tuition and fee rate in the $200 - $500 range with the median being the $300 range. Also, in some states, colleges have higher rates for out-of-district, state resident students. Furthermore, even higher rates are charged for out-of-state students. Although no data were collected for other than full-time students, most (if not all) states provide different rates for part-time students. The part-time student rates are usually on a credit-hour basis or a prorata basis. The other interesting conclusion from the data is that the wide ranges in tuition and fees, which exists within many states, indicates that local discretion is frequently allowed in setting rates. However, states often set minimum or maximum parameters.

## SUMMARY OF SELECTED STATES

Based on the information collected in this survey, 8 states were selected for additional research: Florida, Illinois, Maryland, Minnesota, New York, Texas, Virginia, and Washington. The sample is split equally between states with

local contribution and without local contribution. In addition, the sample includes representatives from all of the major different allocation systems.

*Mission, Goals, and Priorities*

While Proposition 13 may be a unique form of funding constraint, California is not unique in having funding constraints imposed on its community college system. Many other states have faced financial constraints that have forced a reorientation or reorganization of their community college system. Yet, every state examined maintains a mission statement similar to the California Community Colleges.

In theory, most states view the elements of their mission as having equal priority (Virginia is the notable exception). One notable exception to lack of prioritization is in the area of "noncredit" instruction. None of the other 8 states provide support for instruction which is directed at meeting avocational or recreational needs of the community.

While other states have not constrained their community college systems by establishing priorities, most systems have received some form of macro constraint. That is, state legislatures frequently "freeze" the system through two types of limitations: enrollment ceilings or total funding ceilings. With such constraints, priorities are established by local operating decisions.

Other states have not constrained their operations through educational admission requirements. In financial crises, other states resort to tuition and fees to "ration" access rather than admission requirements. Some states have even moved in the other direction by removing previously established admission requirements.

*Level of Support*

Generally, community colleges appear to be suffering from inadequate level of support from the available sources of funds. Most states officials experienced difficulty evaluating their sources of support patterns since they believe all available sources are needed just to stay even.

*Sources of Support*

With inadequate existing levels of financial support, alternative source patterns are not a realistic possibility. In fact, the real problem is to attempt to increase the level of support from available sources. Most states (except Virginia) that have no local support, did have local support at some

previous time. The change occurred due to financial conditions and changing back is not a realistic alternative. In states where a local-state mix of revenue exists, the problem is seen as one of obtaining more funds from each source.

Given the history of community colleges, it is likely that no state would charge tuition if other sources of funds were available. The junior college movement since its inception, has emphasized the desirability of a no-tuition policy and other states support that concept. But, facing shortfalls of funds, other states have discovered no alternative but to use tuition as a source of funds. Some areas (such as New York City and Chicago) did not charge tuition until recently. Other state officials indicate that if alternative sources had been available, they would not have charged tuition.

Another important concern about sources of funds is the belief that the pattern of the sources dictates the system's decisionmaking structure. This is the belief that systems without local funds will have centralized decision-making structures. To test this belief, 6 areas of decisionmaking were examined: (1) budget development and determination of operating expenditures, (2) determination of salaries, (3) course and program approval, (4) capital outlay, (5) determination of scheduling practices and academic calendars, and (6) determination of new faculty positions. This examination does <u>not</u> support the belief that absence of local funds results in centralized decisionmaking.

In addition to this examination, officials in those states that stopped using local funds were asked to assess the impact of this change on decisionmaking. All of them stated that local decisionmaking had either remained the same, or, in 2 states, had actually <u>increased</u> as a result of the change.

*Support Techniques*

All of the states examined have support techniques which are based on workload measures. Even Virginia (which uses a negotiated budget process) allocates a significant portion of the funds through a series of formulas which are based on workload measures. None of the states intend to switch to a support technique that is not based on workload measures.

There is general agreement that there is no "cure-all" to the instructional workload-measure dilemma. All of the states examined use either a contact hour or credit hour measure. The sample included states which had switched in both directions and were considering yet another switch. The only area of agreement was that no matter which measures are used, adjustments have to be made for certain situations. If contact hours are used, there needs to be adjustment for methodologies minimizing contact. If credit hours are used, adjustments for supportable noncredit instruction and contact-intensive instruction need to be made.

In contrast to the other areas of this report, it is not possible to summarize the various support techniques used in other states. The sample was intentionally constructed to include representatives of the major alternative support techniques used so that all types of techniques could be evaluated. More specifically, the techniques included in the sample were: incentive grants (New York), flat grants (Maryland), negotiated budgets (Virginia), program costs with incorporated support rates (Florida, Texas, Illinois), marginal costs (Illinois), and program costs with separate rates for non-instructional costs (Minnesota, Washington).

*Accountability*

Most state officials feel that their master planning process is either lacking of nonexistant. None of the states incorporate output measures into their planning efforts. However, many of the states had useful factors for planning and accountability. Illinois uses the greatest number of elements in a detailed planning process which examines resource allocations, a prescribed state evaluation process and required data submitted on transfer performance and vocational placement. Most of the other states include elements of the Illinois process, but none appear to be comprehensive. The most common elements are comparative cost studies and required output data relative to transfer and vocational students.

None of the states make extensive use of sanctions for planning and accountability. The one common sanction is in terms of compliance (data submittal). In many of the states, performance sanctions also exist. However, besides placing colleges on probation, most states report they have not imposed performance sanctions and probably never will.

*Resources*

Most other states permit each college or district to make its own hiring decisions, provided the college has adequate funds to support new positions. All but 2 of the states examined had locally-determined salary schedules. Of the 2 that did not, Virginia has a salary schedule set by the legislature and Minnesota has a statewide collective bargaining agreement.

In terms of academic calendar, the states are split. About half of the states have prescribed calendars usually through a required number of days that classes must be in session. The other half has no restrictions on the number of days of instruction but control the process through funding on a defined credit hour basis. All states permit local decisionmaking relative to class scheduling.

All of the other states have much smaller enrollments per college. Generally, the average enrollments per college in other states are about 50 percent of average college enrollments in California.

APPENDIX D

ILLUSTRATION OF
PROPOSED SUPPORT TECHNIQUE
LONG-TERM FINANCE PLAN
CALIFORNIA COMMUNITY COLLEGES

This simplified illustration begins with two districts (A and B) in similar circumstances during the base Year 1. Following Year 1, District A grows at a rate of 5 percent each year while District B declines at a rate of 5 percent. Other assumptions for both districts include:

YEAR 1

| | |
|---|---|
| Enrollment | 15,000 |
| ADA | 10,000 |
| Base Budget | $15,000,000 |
| State share (70%) | 10,500,000 |
| Local share (30%) | 4,500,000 |
| Average Revenue | 1,500/ADA |
| Marginal Revenue | 1,000/ADA |
| Annual increase in assessed value | 10% |
| Annual inflation in costs | 7% |

YEAR 2

| | District A | | District B | |
|---|---|---|---|---|
| (1) | base + inflation: $15,000,000 x (1.07) = | $16,050,000 | (1) base + inflation: $15,000,000 x (1.07) = | $16,050,000 |
| (2) | increment: + 500 ADA x ($1,070)* = | +535,000 | (2) increment: -500 ADA x ($1,070)* = | -535,000 |
| (3) | add, result: | $16,585,000 (up 10.6%) | (3) deduct, result: | $15,515,000 (up 3.4%) |
| | local share: | $ 4,950,000 (29.8%) | local share: | $ 4,950,000 (31.9%) |
| | state share: | $11,635,000 (70.2%) | state share: | $10,565,000 (68.1%) |
| | ADA | 10,500 (up 5%) | ADA | 9,500 (down 5%) |
| | average revenue: | $ 1,579/ADA (up 5.8%) | average revenue: | $ 1,633/ADA (up 8.9%) |

* Year 2 marginal revenue (assumes one support rate rather than several).

Year 3

| District A | | District B | |
|---|---|---|---|
| (1) base + inflation $16,585,000 x (1.07) = | $17,745,950 | (1) base + inflation: $15,515,000 x (1.07) = | $16,601,050 |
| (2) increment: +525 ADA x ($1,145) = | +601,125 | (2) increment: -475 ADA x ($1,145) = | -543,875 |
| (3) add, result: | $18,347,075 (up 10.6%) | (3) deduct, result: | $16,057,175 (up 3.5%) |
| local share: | $ 5,445,000 (29.7%) | local share: | $ 5,445,000 (33.9%) |
| state share: | $12,902,075 (71.3%) | state share: | $10,612,175 (66.1%) |
| ADA | 11,025 | ADA | 9,025 |
| average revenue: | $ 1,664/ADA (up 5.4%) | average revenue: | $ 1,779/ADA (up 8.9%) |

The growing district, A, receives budget increases over 10 percent each year while B grows at just over 3 percent even though its enrollment is declining. This is due to inflation and the use of marginal support rates. If District B had lost revenue at the average rate, it would have experienced, in Year 3, a budget of $15,495,925, nearly $600,000 less than under the marginal support rate.

The average revenue for District A increases at between 5 and 6 percent yearly, reflecting economies-of-scale in the face of inflation: a lower rate than would have occurred under average funding.

The state share of support is increasing in District A, decreasing in District B. This is due to the assumed high growth rate in assessed value in relation to other growth rates.

## APPENDIX E

## ILLUSTRATION OF CONTACT HOUR (ADA) VERSUS CREDIT HOUR (FTE) AS MEASURE FOR GENERATING REVENUES CALIFORNIA COMMUNITY COLLEGES

This simple example illustrates the way in which the contact hour serves as a rough proxy for differences in costs. The example takes two extreme cases: (a) the pure lecture situation with three weekly class contact hours for three credit hours, and (b) the pure laboratory situation with nine weekly class contact hours for three credit hours. Faculty loading is is assumed to be that typically employed: one contact hour of lecture equates to one teaching unit equivalent; 1.5 contact hours of laboratory equate to one teaching unit equivalent. The assumed salary is a semester equivalent of the approximate statewide average for regular contract faculty.

| LECTURE | | LABORATORY | (1) | (2) | (3) |
|---|---|---|---|---|---|
| 3 credit hours | | 3 credit hours | | | |
| 3 weekly contact hours | | 9 weekly contact hours | | | |
| Faculty Salary 3/15 (11,000) = | $2,200 | Faculty Salary 9/22.5 (11,000) = | $4,400 | $4,400 | $4,400 |
| Equipment: | 0 | Equipment: | 0 | 0 | 500 |
| Class Size: | 35 | Class Size: | 35 | 25 | 25 |
| WS Credit H: | 105 | WS Credit H: | 105 | 75 | 75 |
| WS Contact H: | 105 | WS Contact H: | 315 | 225 | 225 |
| Cost: | | Cost: | | | |
| $/WSCrH: | $ 21 | $/WSCrH: | $ 42 | $ 59 | $ 65 |
| $/WSCoH: | 21 | $/WSCoH: | 14 | 20 | 22 |
| $/FTE | $ 630 | $/FTE | $1,260 | $1,770 | $1,950 |
| $/ADA | $ 670 | $/ADA | $ 467 | $ 667 | $ 733 |

From the example, it is evident that either credit (FTE) or contact (ADA) as a cost unit produce the same approximate result in lecture. This is not the case with laboratory, case (1). Here the cost per FTE is much higher than the cost per ADA, for obvious reasons.

To approximate the usual laboratory situation, case (2) reflects the smaller (here 25) class size in laboratory and case (3) adds the extra equipment costs. The final costs per ADA in both lecture and laboratory are relatively close. Thus, the use of one revenue support rate in conjunction with the contact hour does not seriously misrepresent the cost differences. If an FTE basis were used, different support rates would be necessary for lecture and laboratory.

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